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Agra Trading

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Case 1

Agra Trading

The beef business is Ireland's most important agricultural industry. It exports 85 per cent of its output. The beef industry faces considerable challenges in terms of raw material supply, technology, structural change, consumer tastes, an evolving CAP and mercurial world markets. Beef processors are highly competitive and secretive. Many are exploring opportunities for adding downstream value to the basic product. Agra Trading announced in 1989 a very ambitious project to produce consumer-packed steaks for the European market under a brand label 'Greenfields'.

Issues: *Industry structural analysis. Understanding the business system. From commodity products to niche marketing. Feasibility of launching an international branded product from Ireland.*

BEEF INDUSTRY

Beef cattle production is the most important agricultural industry in Ireland in terms of farm output, accounting for 37 per cent of gross agricultural output. With Ireland enjoying a 600 per cent degree of self-sufficiency in beef production, exports are particularly important. The industry exports 85 per cent of its production and beef exports totalled £.8bn in 1989, over 5 per cent of all Irish exports. Some 5,500 people are employed in the industry and a further 90,000 farmers are involved in beef production.

The beef processing industry consists of some twenty significant companies, the largest being Goodman International. It is largely controlled by private companies; little published data is available on profitability and, while margins are low, profits can be very high. Moreover, the beef processing industry has experienced great change over the last two decades in terms of structure, technological change, consumer taste, distribution and marketing practices, raw material availability, and EC policy.

Twenty years ago over half of all cattle produced in the country was exported live or 'on hoof'; now only about 10 per cent is exported live (see Table 1). The bulk of the trade now involves cattle moving across the land

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This case was developed as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. The section on the beef industry derives from *Irish Food and Agribusiness: An AIS Perspective*, published by Allied Irish Securities, 1989.

frontier to Northern Ireland. The ship-based trade has declined because of high transport costs relative to processed products, increased investment in processing facilities resulting in improved competition from these factories, and a better marketing performance by Irish beef companies convincing overseas customers for live cattle of the greater attractiveness of processed beef.

Table 1

Analysis of Cattle Supplies, 1989

	HEAD
Export Processing Plants	1,150,000
Domestic Abattoirs	220,000
Live Exports	160,000
Live Imports	(30,000)
TOTAL	1,500,000

CATTLE PRODUCTION

Total cattle production in 1989 amounted to 1.5 million head, or 10 per cent of the EC total. There are an estimated 90,000 farmers engaged in beef cattle production in Ireland. Almost half of these are part-time farmers with off-farm jobs as well. The cattle industry is more complex in many ways than the dairy industry, with animals changing hands a number of times during the production cycle. In a typical case, a calf from a dairy herd in the south would be bought by a small farm in the west and would eventually find its way into a farm in the east of the country for finishing before slaughter. At each stage, the business becomes progressively more capital-intensive. Thus, at the early stages, the cattle industry involves some of the smallest and least developed farm enterprises in the country, while in the latter stages of production, the opposite is the case. Cattle production can be a very rough business at farm level. Producers are at the mercy of sharp movements in price and generally work on tight margins in any event.

One of the main structural problems in the beef industry is cyclicality. Essentially, this means that there is no even pattern in cattle production and that there can be huge fluctuations in output from one year to the next. The industry is highly unusual in that the normal distinction between capital equipment and goods produced is not clear-cut. Breeding cows are the capital of the beef farmer, but these can be readily sold for cash just as young bullocks and heifers can. When confidence in the future of the industry sags, farmers will sell off breeding cows, giving a temporary boost to the numbers going for slaughter, but depressing output in the longer term. Conversely, when confidence grows, farmers will hold heifers back to add to their breeding herd, temporarily depressing the numbers available to

factories but lifting future potential production. The decision to switch from output stream to investment stream, or vice versa, can be made speedily and easily in response to market conditions. As a consequence, cyclicality is endemic in the industry. This has important implications for the ability of meat processors to generate a consistent pattern of profits.

The Irish beef processing industry faces another major difficulty in relation to raw material supplies. The bulk of beef cattle, around 80 per cent, is derived from the dairy herd. The restructuring of the Common Agricultural Policy (CAP) has meant that milk production is now restricted by EC quotas and the number of dairy cows kept on farms is set to decline. This situation is exacerbated by continuing improvements in milk yields, which will exert further downward pressure on cow numbers under the quota regime. Cattle supply problems can push processors into loss-making situations and security of raw material supplies will be a continuing concern for Irish meat processors. In future, it is likely that processors will integrate their operations more and more and take an active interest in the sourcing of supplies.

Seasonality and quality are also major structural problems for the supply of raw material to the beef industry. Both are important limiting factors on the development of beef processing in the country. Cattle supplies in Ireland are highly seasonal. This is because cattle production is based on grazing. Calves are born in the spring, over-wintered for one or two years, and then fattened on grasslands over the following summer. Finished cattle are then generally sold to the processing plants in the autumn. The result of this pattern of cattle production is that the bulk of supplies enters factories in the second half of the year. The six-month period, July to December, accounts for two-thirds of total throughput, while just three peak months—September, October, November—account for almost 50 per cent of throughput.

Thus there is an under-utilisation of capacity during the off-peak months, with many plants closing down completely. As a result, Irish beef processors find it difficult to secure and service long-term contracts with foreign supermarket chains, which are based on a continuous year-round supply. Yet developing long-term relationships with such buyers is of prime importance in the development of the industry. However, there appears to be no underlying improvement in this seasonality problem. A number of larger processors operate their own intensive feed lots to ensure an adequate supply of finished cattle during the off-peak months. This is particularly common among companies with supermarket contracts. A number of smaller processors are attempting to build and strengthen long-term arrangements with suppliers in order to protect themselves from the power of the larger-scale processors in product procurement.

Quality in beef cattle is important for the processing industry. The quality of beef animals is generally measured in terms of fat depth on the carcase and the physical conformation of the live animal. These factors can affect the meat

yield from animals and the palatability of the meat itself. The industry has been encouraging producers to improve the quality of their animals by offering higher prices for those scoring well on the Department of Agriculture's Carcase Classification Scheme. There has been a marked improvement in the quality of animals entering beef factories in recent years. Increasing use of continental breeds and severe penalties for over-fat cattle have greatly alleviated the quality problem. Ireland is the only EC country, apart from Denmark, considered to be disease-free in cattle production and the government operates very strict rules in regard to disease prevention.

BEEF PROCESSING

There are approximately 30 plants licensed to slaughter beef for export. These have the capacity to handle over 3 million cattle per year, assuming 50-week working, but actual throughput has never exceeded 1.5 million. Seasonality means that two-thirds of all cattle are processed in the second six months of the year.

The principal raw material is steers (bullocks). Steers are normally slaughtered at around 30 months of age and they account for over 60 per cent of beef cattle supplies. Heifers, young female cows, make up another 15 per cent. The other major source of supply is the dairy cow herd; about a quarter of all cattle processed in beef plants are cows culled from the dairy herd, normally because of age or poor milk yield performance. Steers command the highest prices, with heifers next. Cows attract much lower prices because of the more difficult market for the meat.

Primary beef processing is a tight margin business. The key to success is to minimise labour costs, add as much value as possible to the expensive raw material and secure quality market outlets for the finished product. The Irish processing industry turns out beef in a number of different forms:

Carcase Beef: This lowest level of processing involves the sale of beef in 'bone-in' carcase form to intermediate processors who debone it and wholesale it to retail outlets. In 1989, 35 per cent of all Irish beef exports in volume terms were in bone-in form, with chilled bone-in accounting for 17 per cent and frozen bone-in accounting for 18 per cent.

Frozen Boneless Beef: Frozen deboned beef is sold in bulk as a commodity product to Middle Eastern and North African markets; 43 per cent of beef exports by volume were in frozen boneless form in 1989.

Chilled Boneless Beef: This is mainly exported in vacuum-packed form. Primal cuts of beef are packed in boxes after being vacuum-wrapped in plastic packaging. This type of product is sold to supermarkets where it is further cut for retail sale. It is a trade product, not a consumer product, and accounted for 18 per cent of the volume exports in 1989.

Processed Foods: Some 4 per cent of beef in 1989 was exported in the form of canned, cooked or further processed foods. This is not yet large enough to be significant in the overall context, but it is likely to grow as greater value is added to beef products.

Irish processors are major exporters to Muslim countries. These markets will accept only meat that has been slaughtered according to the 'Halal' ritual, that is, without pre-stunning and with an Islamic mullah in prayerful attendance. Approximately half the throughput of Irish factories is slaughtered in this way. The widespread use of the Halal method enabled Ireland to supply both sides with beef in the Iran–Iraq war.

TECHNOLOGY

Beef processing, particularly in slaughtering and deboning, has tended to be a fairly rudimentary production process and also fairly labour-intensive, especially in less modern plants. However, as the industry has attempted to add value to its products, the technology has become more complex, sophisticated and, of course, expensive. Improvements in packaging technology have resulted in more manageable portions (for further portioning by the retailer), and in a longer life for the product.

There has been a dramatic increase in vacuum-packed export products in recent years—essentially the chilled boneless beef referred to above (see Table 2). The main customers are British, French and German supermarket chains. This growth indicates that there is clearly great potential for further processing of Irish beef. It is important, however, to recognise that there are certain technical limitations and that technological development may have to take place in a stepwise fashion.

Beef is normally sold at retail level as a fresh product. As such, it has a short shelf-life and this poses serious problems for Irish processors whose supermarket customers are distant from them. Meat in consumer-ready vacuum packs can have a shelf-life of six weeks; however, vacuum-packed beef tends to lose its natural red colour or bloom, and accordingly meets with both trade and consumer resistance. There is a retail market for this type of beef, however, and the industry is now focusing its attention on doing further cutting and trimming to the product before packing. Several Irish companies are now selling 'PAD' vacuum-packed beef to French supermarkets. This is sub-primal beef from which virtually all of the fat has been removed and which can be easily cut into consumer portions. Though still a trade product for cutting in-store butchery departments, PAD represents a significant enhancement of the added-value content in factory output. In the future, such processors may well seek to arrange for an agent or contractor, or indeed their own subsidiary company, in the overseas country to consumer-portion this PAD beef for the retailer and thus enjoy more value added.

Table 2

Exports of Chilled Boneless Beef to EC Destinations, 1981–1989

Destination	1981	1982	1983	1984	1985	1986	1987	1988 Rev.	1989 Est.
Great Britain	3,666	3,844	5,549	7,882	10,806	14,122	24,219	31,510	33,300
N. Ireland	233	535	615	578	486	1,109	1,957	1,755	700
UK	**3,899**	**4,379**	**6,164**	**8,460**	**11,292**	**15,231**	**26,176**	**33,265**	**34,000**
West Germany	3,581	2,567	2,372	4,022	5,081	5,918	7,307	6,718	8,300
France	822	1,835	2,310	3,269	3,997	4,689	5,205	4,977	5,500
Italy	963	1,120	1,736	1,778	1,540	1,470	1,638	1,570	1,880
Belgium/Lux.	118	106	34	369	310	349	636	518	430
Netherlands	264	730	158	27	67	374	1,288	1,415	1,300
Denmark	–	–	–	–	–	–	–	–	–
Greece	9	–	–	–	–	–	–	–	–
Spain	–	50	–	–	–	–	–	3	5
Portugal	16	–	–	–	–	–	–	1	15
Continental EC*	**5,753**	**6,408**	**6,621**	**9,464**	**11,138**	**13,456**	**17,440**	**15,984**	**18,000**
Total—pw	**9,652**	**10,787**	**12,785**	**17,924**	**22,430**	**28,687**	**43,616**	**49,249**	**52,000**
Value (IR£m) (a)	**27**	**32**	**42**	**61**	**76**	**100**	**136**	**175**	**200**

* For comparison purposes, figures for Portugal are included for years prior to EC entry.
(a) Inclusive of MCAs and Variable Premia. Source: CSO and CBF Estimates.

There is a direct trade-off between bloom and shelf-life. The longer the life a fresh meat product is given, the less attractive its appearance is likely to be for the consumer. This is hindering movement towards the desired objective of processors and supermarkets alike—the centralised cutting, packing and labelling of consumer-ready retail packs. Processors want to move towards a centralised system because it allows them to add more value and improve profit margins. For supermarkets, the main attraction is the saving on labour costs on their in-store butchery department, while reduced wastage, lower freight costs and the freeing of more space for retail use are also important considerations. It is likely that the value-added chain or business system in the beef processing industry will be increasingly dominated by two sets of players, the processor and the retailer, with a corresponding reduction in the number of middlemen, be they further processors, trading companies, distributors, agents or contractors.

Important developments are currently taking place in the United States red meat market which will have major implications for the Irish industry. The Excel Corporation, the second largest beef processor in the US, is pioneering the marketing of a range of consumer-ready retail cuts in a new type of vacuum packaging known as 'Far Fresh', which gives a 21-day shelf-life. The main problem is proving to be not consumer resistance but union opposition because of the threat to jobs in retail butchering. The overall success of the venture still remains to be proved.

The success of the American 'Far Fresh' experiment would open up new opportunities for the Irish beef industry. Like their American counterparts, Irish processors have to ship products long distances to their retail customers—British and continental supermarkets. Any movement towards centralised production of retail cuts in the international meat business would have beneficial consequences for the major Irish exporters. Already, as is described below, one Irish company, Agra Trading, has developed a similar 'long-life' beef product in branded consumer portions for the European market.

DISTRIBUTION

Changing consumer tastes, evolving packaging technology and new competitive modes have meant that consumer outlets for beef have been changing significantly over the last two decades. In this retail sector, the traditional retailer or butcher has been losing market share to the general food trade. In France, supermarkets now account for approximately 53 per cent of retail sales. In Germany, the major food retailers have 75 per cent of the retail beef market. In Italy, the traditional butcher is also in decline and while accounting for 60 per cent of the outlets, controls only 20 per cent of the market. In Ireland, however, the trend has remained static in recent years, with the proportion of customers using specialist butchers during weekdays increasing from 51 per cent in 1984 to 54 per cent in 1987. An important consideration in this switch

to purchasing in the supermarket rather than in the stand-alone butcher is that the supermarkets themselves throughout Europe are becoming increasingly concentrated. For example, in the UK the six largest multiples control 30 per cent of retail beef sales out of the total supermarket sales of 35 per cent.

The catering sector is still a major distribution outlet for many processors. Receiving a contract often means long-term distribution and, since meat is included in most of the meals, is a very substantial market. Fast food chains, restaurants, hospitals and prisons are some of the many outlets. As the trend for eating out is growing and more businesses have in-house catering facilities, so the catering sector is an increasingly opportune market for beef processors. An estimated 20 per cent of overall beef demand in the UK is in the catering sector; this statistic is 15 per cent in France and Germany and 22 per cent in Italy.

MARKETS AND MARKETING

The domestic beef market is worth some £200 million at wholesale prices. This is virtually a separate market from the export trade and is dominated by local butchers and small abattoirs, some of which are still in municipal ownership. There are larger abattoirs in the main cities and the best of these would be on a par with the export plants. A small percentage of the output of the export plants is channelled into the domestic market.

However, as 85 per cent of Irish beef output is exported, the primary focus of attention must be on the overseas market. In 1989, beef exports totalled over 320,000 tonnes product weight and were valued at £810 million (see Table 3). Almost 80 per cent of Irish beef exports in volume terms leave the country in either bone-in or frozen boneless form. These are essentially low added-value products and a marketing challenge for the future will be to sell more high-margin products into stable markets. The significant growth in vacuum-packed beef exports has been described earlier as has been the development of supply contracts and longer-term relationships with European supermarket chains on the part of processors. There is increasing sophistication evident in the export marketing of Irish beef products. This is a highly desirable development in an industry which has strayed from the true path of commercial selling because of the inducements on offer from the EC's intervention system and the consequent over-reliance on CAP.

Practically all the major processors have established their own sales offices abroad; most have set up in Britain, but some also are operating in the French, German, Belgian and Dutch markets. Irish companies are pursuing better integration through the acquisition of downstream processing facilities proximate to their main markets. This has so far happened only in Britain with companies such as Goodman International and the Kerry Group, but similar developments are likely in the main continental European markets in the

coming years. Such integration obviously allows processors to control more of the value-added chain.

Table 3

Exports of Beef and Beef Products to All Markets, 1981–1989

Destination	1981	1982	1983	1984	1985	1986	1987	1988 Rev.	1989 Est.
Great Britain	104,938	95,899	98,009	81,756	82,362	114,288	118,653	107,648	96,000
N. Ireland	5,096	10,267	7,596	7,769	6,519	12,405	20,950	6,473	4,000
UK	**110,034**	**106,166**	**105,605**	**89,525**	**88,881**	**126,693**	**139,603**	**114,121**	**100,000**
West Germany	11,142	9,835	6,291	8,125	10,062	9,427	9,323	7,960	10,200
France	35,145	31,977	31,900	23,231	40,465	36,832	31,348	26,863	30,000
Italy	2,197	2,032	2,973	2,368	2,279	2,055	2,804	3,246	5,500
Belgium/Lux.	3,772	2,716	1,660	5,381	1,409	1,458	1,386	1,825	700
Netherlands	9,483	7,332	2,685	2,511	5,778	1,044	1,884	2,215	1,850
Denmark	558	126	124	46	243	684	1,678	852	630
Greece	1,386	1,662	1,126	20	18	92	226	3	300
Spain	–	–	–	–	–	206	–	118	570
Portugal	–	–	–	–	–	59	43	36	50
Continental EC*	**63,683**	**55,680**	**46,759**	**41,682**	**60,253**	**51,857**	**48,692**	**43,118**	**49,800**
Other European	17,413	7,124	1,871	541	2,675	2,786	19,204	3,896	11,000
N. Africa/M. East	23,644	35,777	47,205	59,414	83,028	85,140	107,554	97,004	134,000
Other Countries	4,900	8,656	16,466	25,700	21,345	46,035	28,786	39,693	28,000
Internat. Markets	**55,796**	**56,844**	**89,383**	**86,046**	**113,681**	**167,584**	**159,624**	**140,593**	**173,000**
Total—pw	**229,513**	**218,690**	**241,747**	**217,253§**	**262,816**	**346,134**	**347,919**	**297,832**	**322,800**
Value (IR£m) (a)	**395**	**450**	**514**	**545**	**673**	**708**	**835**	**735**	**810**

* Includes small quantities of veal (a) Inclusive of MCAs Variable Premia and Export Refunds. Source: CSO and CBF Estimates.

There are three main markets for Irish beef exports—the UK, continental EC countries, and the so-called 'third countries' of North Africa and the Middle East. The UK is Ireland's biggest export market. Out of a total UK consumption of 1.1 million tonnes, 10 per cent is accounted for by Irish imports. The bulk of this beef is supplied to intermediate wholesale operations for further processing. The growing trend, however, is for product to be supplied direct to supermarkets in vacuum-packed form and this trade now accounts for a very substantial proportion of total tonnage exported. Irish companies are also capturing retail trade through the purchase of British meat processors. It is worth observing that beef consumption in the UK is declining slowly as younger consumers switch to meat products with a healthier image. In the continental EC, the main markets are Germany, France and Italy. Although Italy is the biggest beef importer in the EC, the type of beef required means that Irish companies have established only a small presence there as yet. Other EC markets include Belgium, Holland and Denmark.

In the Irish context, the 'third country' markets are the states of North Africa and the Middle East, especially Egypt, Iran and Iraq. Beef imports into these countries are normally handled by state trading agencies, although private companies are becoming increasingly important in the Egyptian context. The main demand is for carcase beef and frozen boneless beef. The third country trade suits the Irish industry particularly well as it involves large-volume contracts for supply during the peak autumn period. While exports to these markets are sizeable, it is essentially a commodity trade with many erratic elements in it. Contracts have to be won each year against severe international competition. Oil price weakness has hampered the ability of these countries to purchase foreign produce. Further, the volume of trade can vary dramatically from one year to the next and indeed the whole trade is heavily dependent on EC export refunds—essentially massive subsidies—to keep it competitive with South American exports. Thus, while these markets have proved lucrative for Irish exporters over the years, they cannot be regarded as a stable source of earnings.

CBF (the Irish Livestock & Meat Board) is the state-run agency charged with promoting Ireland's image as a major producer and exporter of top-quality meat. It participates in international food trade fairs and operates offices in London, Dusseldorf, Milan and Paris to facilitate business contact and development. It does not, however, have any direct trading role. At home, it has an informational, advisory and research-coordinating role. It also seeks to promote domestic consumption of beef and to counter competition from other meat and protein foods.

INTERVENTION AND EC POLICY

Irish beef production and processing operates in the very long shadow of another 'market'—that of intervention. The basic purpose of intervention and other EC support systems for beef, such as aids to private storage (APS) and export refunds, is to guarantee reasonable prices to beef farmers by providing a safety net for the output of processing plants. However, such support systems have tended to distort free trade processes, to remove incentives to process further and to secure real consumer markets, and in general to militate against effective and efficient marketing. In essence, intervention has proved to be the negation of marketing. It has also proved to be very cumbersome and very expensive. EC beef policy is undergoing a major restructuring at present. Substantial cost savings are going to be implemented in the £1.6 billion price support system for beef and a much greater emphasis will be placed on the free interplay of market forces.

The policies of the EC are very important in the Irish context. Intervention purchases in Ireland amounted to 126,000 tonnes in 1986, 98,000 tonnes in 1987, 56,000 tonnes in 1988 and 77,000 tonnes in 1989. Transfer payments from Brussels to Irish beef processors amounted to over £230 million in 1987. In future the reduction of intervention in all support systems will necessitate a greater emphasis on marketing and the Irish beef industry will move further away from speculative commodity trading and concentrate more on continuous business with retail outlets. Also, the new measures are likely to see the EC beef market coming into balance for the first time in several years with a consequent firming-up of beef prices over the next couple of years. This price trend will suit producers and also put the onus on beef processors both to secure raw material supply and add further value to the product.

PROCESSOR PROFILE

The processing of beef for export is dominated by one company—Goodman International. There are about 20 other substantial companies involved in the trade. The business environment is extremely aggressive and notoriously secretive in relation to any kind of commercial disclosure. Beef processing, especially at the primary stage, is a tight margin business; efficiency is paramount. Given the erratic nature of the business and the difficulty in maintaining stable patterns of profit performance, beef processing companies frequently run into trading difficulties. Such distressed companies provide acquisition opportunities for other players keen to pick up extra capacity at attractive prices. In this situation, it is very hard to make accurate judgments as to how much of the industry is controlled by particular companies. Table 4 is an estimate of shares of the export beef processing trade in 1988.

Goodman International operates nine plants in the Republic of Ireland as well as several in Northern Ireland and Britain. The company has been

Table 4

Processor Profile: Export Beef, 1988

Company	Head of Cattle	% of Total
Goodman International	500,000	42
Halal Meat Packers	190,000	16
Classic Meats	100,000	8
Hibernia Meats	60,000	5
Appletree Holdings	60,000	5
Liffey Meats	60,000	5
Kepak	50,000	4
Guinness (Meadow)	40,000	3
Kerry Group	35,000	3
Queally Group (Dawn Meats)	30,000	3
Other Processors	75,000	6
Total	1,200,000	100

highly acquisitive over the last number of years and has specialised in buying under-performing assets at modest valuations and converting them into efficient profit-generators. Goodman does business in vacuum-packed beef with several British supermarkets and is a major supplier of carcase and vacuum-packed product for Middle Eastern and North African markets. The company has annual sales of over £760 million.

The other major company in the Irish beef industry is Halal Meats. Halal, like Goodman, is a private company which is controlled by Sher Rafique, a Pakistani national with substantial food interests in Britain and Ireland. Halal deals almost exclusively in beef slaughtered according to the Muslim rite and sells most of its output to the ethnic Muslim market in Britain and continental Europe. Halal has currently five beef plants in the Republic and, like Goodman, has been in an expansionist mood of late. Halal's total sales from its Irish operations are estimated at about £320 million per year. Another large slice of the industry is controlled by Classic Meats, which operates four plants in the Republic of Ireland and one in Northern Ireland.

The remaining third of the Irish beef business is owned by a diverse collection of companies. The Kerry Group has been involved in beef since it purchased an 80 per cent holding in IMP in 1986. British company Appletree Holdings bought the Kildare Chilling Plant in 1987. Three important companies privately controlled by Irish entrepreneurs are Kepak, Hibernia and

Liffey. Kepak has its main beef plant about ten miles outside Dublin and also operates smaller beefburger and sheep meat plants. The company does significant business with the Irish retail trade. Hibernia Meats, based in County Kildare, has important supply contracts with French supermarkets. Liffey Meats is run by the Mallon family interests and processes beef and lamb at Ballyjamesduff, Co. Cavan.

Many of the primary processors are engaged in value-adding activities on the same sites where their slaughtering facilities are located. In some cases, downstream processing facilities are located in export-licensed plants away from the primary production sites. The Queally Group, through Dawn Meats, has a significant presence in the further processing sector; the group's total annual turnover, including all activities, is estimated at over £80 million.

In the future, a greater concentration in the structure of the primary beef processing industry is likely to take place, with the two dominant players in the industry likely to strengthen their position even more. However, some companies operate only in the secondary or further processing sector, buying in their raw materials from the slaughtering plants. Many of these operations are amongst the most profitable in the beef industry and are successfully pursuing niche marketing tactics. Rangeland meats, Barford and Rye Valley Foods are among the companies who have specialised in such added-value processing.

AGRA TRADING

Agra Trading was established in 1975 by its German owner, Friedhelm Danz. It is headquartered at Blackrock, Co. Dublin. Initially founded as a beef trading company, it subsequently acquired processing facilities in Antrim and Cork, and has cold storage and chilled distribution operations in Britain. The company employs 850 overall. Turnover on all its activities amounted to £150 million in 1988 with an estimated £3 million profit, making it the third largest meat company based in Ireland in revenue terms.

In March 1989, Agra Trading announced a project to produce consumer-packed steaks for the European market under a brand label 'Greenfields'. Using a new pioneering process, researched and developed by the company itself, the beef steaks would be specially tenderised and vacuum-packed in consumer portions to give a 21-day shelf-life as a fresh product. Supported by the IDA, the project would involve £150 million investment and would provide 600 jobs over the next five years. It was hailed as a strategic change in Irish agribusiness because Agra would be the first company in Europe to market such a branded and specially packaged fresh beef consumer product to the supermarkets of Europe. Making the formal announcement in the Industrial Development Authority head office, the Minister for Agriculture and Food said that while the proposed investment was a high-risk up-front investment, it would result in a total breakaway from commodity and intervention trading.

COMPANY HISTORY

Friedhelm Danz, married to an Irishwoman and living in Ireland for many years, had always seen Ireland as a land of opportunity in the beef industry. He had worked with a quiet confidence and firm determination over the fifteen years to build Agra Trading into a substantial meat company, poised for future expansion. Agra Trading started life as a meat trading company in Dublin. Sister trading companies were set up in Germany and the UK. In 1981, Autocarve in London was bought; then, five years later, John Wharton Meats in Kent. Both were trading firms. The activities of these trading companies encompassed sourcing beef product in Ireland, South America and Australia and selling it to the UK (for further processing and into catering) and to various markets in continental Europe, the Middle East and South Africa. In 1979, Agra purchased Abbey Meats at White Abbey in Antrim. It was the company's first foray into manufacturing. The plant was extensively furbished at the beginning of the 1980s at a cost of £10 million; originally designed for pork and beef, it was streamlined for beef only. It had a slaughtering capacity of 50,000 animals per year and a workforce of 200. Danz found the experience of refurbishment at White Abbey costly and ultimately unsatisfactory and determined that any further manufacturing operations would be started from scratch.

In 1984, Agra started to build another processing plant at Watergrasshill in County Cork. It was completed in 1987 after a capital investment totalling £10 million. It had a workforce of 220 and a kill capacity of 50,000 animals per year. The plant was built to a high level of technical sophistication in keeping with a company philosophy of continually seeking the highest possible standards and quality. The company also saw itself as a good corporate citizen and was committed to the preservation of the environment. Slaughtering and production areas at Watergrasshill were separate, but joined by a special cooling tunnel. The company spent £150,000 on an effluent treatment facility at the plant.

The third area of Agra activity was in chilled distribution and followed the purchase of UK company Tom Granby in 1988. This company had five UK depots at Sheffield, Luton, Bristol, Birmingham and Liverpool. Agra intended to become more active in the storage and distribution of temperature-sensitive goods in EC countries for processing, retail and catering markets. The company shared, along with all the other privately owned Irish meat firms, a reluctance to disclose any detailed financial data. Thus the precise breakdown of turnover between its trading, processing and distribution operations was not known. However, industry sources believed that the greater proportion of revenue came from the trading businesses with processing accounting for some £50 million.

'GREENFIELDS' PROJECT

In the latter part of the 1980s, Agra Trading began to research the possibility of producing a branded Irish consumer-ready beef product for the European

market. The company examined a number of new packaging technologies being experimented with in a number of countries, particularly the US. At its R & D facility at Watergrasshill, it developed a new process for tenderising and specially packing consumer portions of beef steak which would enjoy an extended shelf-life of twenty-one days. By 1988, it was test-marketing the idea selectively in Germany among consumers in supermarket outlets. Using the services of a London-based advertising agency the company developed a marketing programme. 'Greenfields' was chosen as a brand name to exploit the image of Ireland as clean, green and lush. Initial results were very encouraging and the project gathered considerable momentum during 1988. In Newbridge, Co. Kildare, a factory formerly owned by Polaroid was bought with the intention of building a state-of-the-art secondary processing plant capable, in full operation, of producing 265 million Greenfields steaks per annum using the new tenderising and vacuum-packaging process. Given the scale of the project, the assistance of the IDA was sought and in March 1989 the ambitious plan was unveiled publicly.

The project would involve £150 million expenditure. Of this, £53 million would be set aside for marketing and advertising support for the brand. Seven million pounds would be earmarked for training and human resource development. The remaining £90 million would be divided between investment in fixed assets and working capital. IDA grant aid at the norm of 20 per cent on fixed assets was estimated at £7 million and the IDA, on behalf of the government, would be providing a further £3 million equity injection in preference shares as an indication of its confidence in the project. Much of the capital investment would be utilised in the development of the former Polaroid plant in Newbridge, where secondary processing to final product would be carried out. Investment in secondary processing of this nature is always costly. It was intended to provide 200 jobs at the end of the first year, with employment rising to 600 at the end of the subsequent four-year period. The primary processing plants at Watergrasshill and White Abbey would be responsible for the supply of quality boneless beef to the Newbridge plant.

The Greenfields brand provided a range of steaks which were cut and ready to cook. Each piece was individually vacuum-wrapped in special foil packs with the brand of Greenfields clearly marked. Each piece was tenderised and the shelf-life extended to three weeks without preservatives or additives. The product could be stored in a domestic refrigerator during this period and freezing was not necessary. Exhibit 1 provides an example of Greenfields packaging and advertising.

At the time of the project's formal launch, Greenfields was already selling in selected areas in Germany and plans had been made to extend European sales to Scandinavia, the Benelux group, Denmark and France by the end of the year. Italy, the UK and Spain were targeted for 1990. Along with its

Exhibit 1

Example of Greenfields Packaging and Advertising

German office, Agra was in the process of setting up small marketing offices in Denmark, France and the Netherlands. It was not planned to market the product on the home market, initially at least; this was because of its size and because Agra had no presence or established sales or distribution network in the country.

Agra's Greenfields project was acknowledged to have inherent risk. In an interview with *Business & Finance* magazine around the time of the launch, Friedhelm Danz was quoted: 'Eight out of ten brands fail and that is the risk we take. But we believe that we have a great chance of succeeding. We are first in the marketplace and we consider that the consumer benefits of our product are enormous. We recognise that the lead time for brand development is very long and we will support this development as is necessary. But nothing is sustainable forever at a loss. And if that situation arises, we will assess it then.' While no other European company had currently refined the product

idea to the same stage of quality and consistency as Agra, its lead might be short-lived as competitors analyse, exploit and develop new technologies.

PROGRESS

As well as investing in technology and marketing, Agra Trading had also invested in its management resources. In early 1989, Kevin Kelly, former administrator of the PMPA insurance company and managing partner of Coopers & Lybrand, was appointed chief executive. Three other senior appointments of experienced personnel from outside the company were also made around this time to positions of executive director marketing, manufacturing (primary product) sales, and human resources. In general, the Greenfields project drew heavily on Agra's resources, both financial and human. The research, planning activities and scale of the project absorbed much of senior management's time. By the middle of 1989, the company had already invested over £3.5 million in the project in direct, out-of-pocket costs. If indirect costs in various areas such as research, production, technology and education were added to this figure, total investment to date tallied to a very much higher figure.

A number of industry commentators, while applauding the enthusiasm and priority given to the project by Agra, expressed reservations about the ambitious pace of progress and were of the view that a more cautious step-by-step approach might be better. In particular, they expressed doubt about Agra's hope that the Greenfields brand name would be established in European markets within three years; five to seven years was seen as more realistic. CBF—the Irish Livestock & Meat Board—was not formally involved or consulted on the project by Agra. The apparent reason for this was the composition of CBF's board, which included representatives of rival companies. In its concern for an adequate, all-year-round raw material supply to its primary processing plants, Agra worked with the Department of Agriculture; when it is considered that the steak portion of an animal accounts for only a very small part of the carcase, the need for and the logistics of an adequate raw material supply become all the more apparent.

As the company moved through 1989, its trading business was revealing a somewhat disappointing performance. It was experiencing particular problems with the APS scheme, where it had difficulty selling meat out of storage at the end of the period. It also lost a number of lucrative third country markets to other Irish meat companies. Furthermore, the company was having trouble with its White Abbey plant in Antrim. The plant required substantial capital investment to meet current EC standards, despite the money spent on refurbishment in the early 1980s. It had been recording losses for a number of years.

In late September 1989, Agra's chief executive, Kevin Kelly, announced that the full implementation of the Greenfields project was being postponed by up to twelve months with the consequence that planned construction and recruitment

at its Newbridge plant would be delayed until the middle of 1990. While the initial response to the product in Germany had been very encouraging, subsequent sales experience and consumer research feedback had convinced the company that a repositioning of the product with the consumer and a redesign of the packaging would be necessary before a full launch could take place in the remainder of European markets. A radical redesign of packaging was currently being undertaken by European experts and the subsequent testing of the new packaging and presentation would slow progress. In his statement, Mr Kelly said that to date no grants had been drawn down and Agra was keeping the IDA closely informed about developments. The company had also arranged discussions with community leaders in Newbridge. He remained confident that Europe's first branded consumer-packed steak would be a success. 'We are totally committed to this project and we know it will work. However, it has got to be delayed until we get the marketing and packaging right,' he added.

Questions

1. Describe the business system or value-added chain of the beef industry.
2. Assess the challenges facing the industry.
3. Explain why intervention is the negation of marketing.
4. Consider Agra Trading's venture into the value-added business.
5. Suggest the strategy you consider necessary for its future success.
6. What are the salient concerns a firm in the agribusiness industry should take on board before it moves downstream to develop a consumer product offering?