Added value in poultry meat production; why and how

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Poultry meat producers worldwide put a strong emphasis on cost price competition. Ever since the origination of industrial poultry meat production, prices (at least relative to many other products) have shown a continuously decreasing trend. From luxury food (as in the fifties of the last century), poultry meat has become a commodity, a cheap protein source for humans. Continuously increasing consumption of poultry meat (in absolute terms and relative to other products of animal origin) is one of the side effects; discussions on potentially negative effects on animal welfare and/or the environment of housing density, farm size and production efficiency etc. are another side effect. Consequently, in several European countries discussions have started on how to shift, at least for part of the production, to a system aimed at quality in the broadest sense. This may be sensory quality or a contribution to human health, but also an animal-friendly production system or better protection of the environment. In principle attributes of a sustainable production system.

The background is that groups of consumers are (or may be) willing to pay a premium price for a premium product. Farmers (or poultry meat production chains) are in principle interested in earning a decent living, not in a low cost price per se. Poultry meat products based on added value do exist, but their market share is small and has remained relatively stable over the years. We have examined, in a participatory way with stakeholders from industry and individual farmers, what their motivation and strategy is to invest in added value products and which factors should be considered for a realistic perspective on premium poultry meat production.

Key words: poultry meat production, added value, production systems, motivation of farmers

Introduction

Specialised poultry meat production is only about half a century old. Before the nineteen fifties, poultry meat was more or less a by-product of egg production. Two innovations made specialised poultry meat production possible: the techniques of sexing one day old chicks and the introduction of coccidiostats. Both were introduced in the nineteen fifties. Since then, developments in the performance of broilers have gone very fast. In 1964 eight different breeds/crosses were tested at the Dutch Random Sample Testing Station. At 56 days of age, six breeds had an average weight between 1111g and 1177g, and two weighed 1337g and 1339g respectively. Feed conversion was about 2.45 (Zeelen, personal communication). In 2004, for cost price calculations an average weight of 2120g at about 40 days of age was used with a feed conversion of 1.74 (Van Horne and Bondt, 2006). However, many broiler growers in The Netherlands have several flocks after each other with feed conversions of 1.5 and less. In 40 years the growth rate has doubled and the amount of feed required per kg has been reduced to 60%.

The scale of production has also increased, with flock sizes of 10,000 being considered extremely large in the sixties whereas 100,000 is quite normal now, and today the number of slaughterhouses is perhaps only 10% of the number 40 years ago.
Consequently, the cost price of poultry meat has been reduced, consumer prices have gone down and poultry meat has become cheaper than beef or pork. From a luxury product, poultry meat has become a commodity, with ever increasing production and consumption worldwide. The share of poultry in total meat consumption continues to expand at the expense of other meats, from 25% in 1992 to 32% as expected by 2010, while meat consumption overall increases by 2.5% per year (FAO, 2002).

Between continents there are large differences in development of poultry meat consumption, and the greatest increase in consumption and production is expected in Asia and South America. In Europe, production and consumption will not grow to such an extent, although here too poultry meat will replace part of the beef and pork consumption because of its low fat content and low price.

However, avian influenza broke this trend, and global production of poultry meat is expected to decrease in 2006 by 3.3%. In the first half of 2006 poultry consumption in the EU went down by 11.6% compared to the prognosis for 2006. Although the reduction in poultry meat consumption is not a logical response to AI, it will take the poultry sector time to restore the original trend of continuous growth. Worldwide acceptance of a vaccination strategy might help in restoring the trust in poultry meat.

Accelerated by the AI outbreaks, groups of citizens in Europe are becoming increasingly concerned about the way in which food producing animals are treated (see for instance Harper and Henson, 2001). Furthermore, many citizens are concerned about the environmental effects of animal production. Ammonia emission and manure deposition are now part of European legislation. Consequently there is a small but growing number of consumers who prefer meat from systems they perceive as animal friendly and environmentally sound (e.g. organic systems).

Most consumers of poultry meat are price buyers. Price campaigns of retail organisations immediately lead to increased sales. However, in all parts of the world groups of consumers distinguish between products and are prepared to pay a premium price for a product they perceive as ‘better’, whether this is taste, safety, or animal or environmental friendliness. A clear example is what consumers are prepared to pay for a Poule de Bresse, with prices up to five times that of a normal broiler (over 30 euro/bird of 2 kg). Quality (and status?) is the driving force. Organic broilers cost two to three times as much as standard broilers, and their market share is increasing. Here a combination of care for the environment, animal welfare, taste and health is the driving force. In many countries in Africa and Asia consumers are prepared to pay more for old laying hens than for broilers because of their flavour, taste and cooking quality.

When questioned, citizens indicate that they appreciate production with more animal welfare and less burden to the environment. However, in their buying behaviour most of them are not consistent (Ingenbleek et al., 2004). General market research in The Netherlands indicates a market share of 5 to 10% as a maximum for products with an idealistic background like organic products. This market share could increase if the extra price for more welfare etc. is reduced to about 10% above the standard price.

Broiler farmers are caught in a treadmill of continuous cost price reduction. Increase in scale, increase in technical performance of broilers and reductions in the cost of labour are usually their answer. On the world market, South and North America had, have and will have a much lower cost price than the EU (Horne and Bondt, 2006). Reasons are the lower costs of feed and labour, lower costs due to a far more integrated production system and cost advantages because of regulations imposed in the EU (environmental measures, use of animal products in the feed, chilling in the slaughter plant, etc.). EU barriers to imports of poultry meat will be lowered in the near future, and consequently the cost price of poultry meat produced in North or South America (transport included) will be lower on the EU market than the cost price of poultry meat produced in the EU.

The poultry meat trade can be divided into three segments:

- Retail market of frozen or fresh poultry
- Food services market for fresh and frozen poultry
- Industrial market for further processed products

The industrial market deals with frozen or cooked poultry meat and is completely focused on cost price. This market will be served almost completely by low-cost countries. Provided the EU adjusts its definition of fresh poultry meat to poultry slaughtered not more than 10-14 days before the meat is
sold, the consumer market of fresh poultry will be served from Europe. The food services market can develop in either way, but will be under pressure from the prices in the industrial market. In The Netherlands most broiler farmers are independent. A number of them are not prepared to continue competing in the cost price war. The majority of farmers are convinced, however, that premium products will always be only a small segment and that for survival of a significant broiler sector continuation of the cost price war is the only solution.

Because of the pressure of citizens and NGOs on current production systems, the Dutch government has initiated a project in which stakeholders from the broiler industry and research institutions together examine new directions in broiler production (Leenstra et al., 2006). One of the central points in these new directions was the possibility or impossibility of creating added value. In the past, the search for added value was generally undertaken by individuals who were not interested in further communication if they had a market share for themselves, while the farmers organisations only believed in large-scale bulk production. In general this has led to defensive attitudes towards each other.

In this paper we describe the developments in the dialogue on added value in The Netherlands.

**General outline of the process**

In the project ‘Prolific poultry meat production’ (Leenstra et al., 2006) a number of participants had ideas on added value products. As a first step in the dialogue on added value, in-depth interviews were held with individuals who have specific ideas on added value. These interviews provided a starting point for a workshop with participants who had a background in ‘cost price/bulk production’ and/or in ‘added value production’. In this workshop the two groups together examined the reasons why added value should be an option, what presuppositions on added value they had and if these could be argued, and finally what actions could be taken to support bulk and/or niche production.

**Why does one put energy in added value poultry meat?**

From the interviews it became clear that the push and pull factors to work on added value in poultry meat production could be summarised in a two-by-two matrix. One axis distinguishes between those who think that one has to make or find a market and those who are convinced the market is there and has to be followed. On the other axis there is the difference between those who are convinced that individual action is the basis for success and those who believe that co-operation is necessary to tackle the opportunities. These two sets of differences in belief give an exiting characterisation of people involved. By knowing their believes one can understand their actions and reactions. The following table shows these differences:

<table>
<thead>
<tr>
<th></th>
<th>Autonomy</th>
<th>Cooperation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market is leading</td>
<td>• No need for increase in scale</td>
<td>• Not content with current system</td>
</tr>
<tr>
<td></td>
<td>• Profit</td>
<td>• Go for win-win</td>
</tr>
<tr>
<td></td>
<td>• Independence</td>
<td>• From bulk to better and special</td>
</tr>
<tr>
<td></td>
<td>• Freedom</td>
<td>• To keep independent Dutch broiler</td>
</tr>
<tr>
<td></td>
<td>• Autonomy</td>
<td>production alive</td>
</tr>
<tr>
<td></td>
<td>• Professional challenge</td>
<td>• Gain sympathy from consumers</td>
</tr>
<tr>
<td>Make or find the market</td>
<td>• No future for bulk production in The Netherlands</td>
<td>• Coherence between parties</td>
</tr>
<tr>
<td></td>
<td>• I determine the price and regulate production</td>
<td>• Fun to start something new</td>
</tr>
<tr>
<td></td>
<td>• Consumers really want to buy my product</td>
<td>• Set aside some of the bulk production to survive</td>
</tr>
</tbody>
</table>
What prevents experimenting with added value production?

The main threshold for starting with added value production is formed by presuppositions. During the workshop several presuppositions were put forward and discussed:

- One needs a significant volume in the market to get a positive return on investment
- Production has to be continuous, year round
- The current system is specialised in large quantities and standard products. Consequently, if you want small-scale production everything from feed to slaughtering becomes too expensive. There is nothing left that fits a smaller scale.
- One is dependent on supermarkets for getting the product to consumers
- Only older consumers want chicken with more taste, the younger ones want chicken without the specific chicken flavour

The participants agreed that discussing these presuppositions is a first step towards new developments. To learn more about myths on the poultry meat market, some successful niche markets were identified and examined in more detail. Examples put forward were the Dutch duck production as a whole and a special turkey and some special chicken varieties. All had in common that they focus on completely different marketing channels than retail (upper class food services, internet, on-farm sales). Furthermore, they are quite reluctant to increase production volumes if demand increases: ‘if there is more demand, you can also increase the price and thus increase the margins’. Supermarkets (responsible for about 90% of poultry sales) were not seen as a suitable channel: ‘they will always focus on their own margin and thus try to put pressure on cost price’.

A significant volume in the market and year-round production were seen as specific for a kind of ‘in-between’ product. These presuppositions originate from the paradigm of standard poultry meat production. A niche product can very well be a product for a specific season or only available in limited quantities.

Are niche markets competitors or promoters for the bulk producers?

In general, the status quo in The Netherlands is that there is only one direction that guarantees a viable poultry production, and that is large-scale production with competition on cost price on the world market. In Europe, consumption is focused on breast meat; thus, the world market is required to sell the other parts of a chicken. The slaughter plants/processors will develop added value from a reliable standard quality product by innovation into new products (convenience, variation). The large players are as yet not interested in a different primary production system with a broiler that distinguishes itself by the primary production process. Such niche markets may be a solution for one or two individuals, but not for a sector. Consequently, all policy-making should aim at large-scale, cost price oriented production. Farmers organisations want the government to focus on a level playing field, in the EU to start with but preferably worldwide. Often they regard the development of niche markets with more attention for animal welfare and/or the environment as a threat. If such a niche market is successful, they fear that the government will impose such a system on all poultry producers. Consequently, the farmers organisations are not supportive to niche market development.

During the workshop, it gradually became clear that there is no competition at all between the two types of production. In fact they might even promote each other, provided all parties (the government included) accept a statutory minimum level for animal welfare and solutions to environmental burdening, and let the market determine the success of a niche product.

Given the cost price structure within the EU compared to North and South America and the WTO decisions on an open market for poultry meat, there are three possible strategies for production in Europe:

- Bulk is the basis, but one may find a market by improving quality
- Start with a niche and develop the niche product to a bulk product
- Continue to produce a niche product and connect with other niche products in the same or other branches to get some advantages of scale.

The general idea was that in the long term the third option is the only solution for the niche product itself, and it might have positive effects for bulk production.
If the two categories of production, bulk and niche, communicate in a positive way about each other, buyers of bulk products may incidentally buy the niche product for special occasions. This will provide the bulk product with elbow room to increase quality and price to some extent and/or develop a kind of ‘in-between’ product, like the Poule Certifié.

**Conclusions and steps to be taken**

During the workshop a number of conclusions, thoughts and actions were identified. Most important was the notion that the two types of production (niche and bulk) are not competitors at all. The participants were convinced that respecting each other and communicating only in a positive way about each other would be much more fruitful than trying to explain to the other party why their focus on niche or bulk is incorrect.

Do not look for uniformity and do not try to apply the rules and systems of one type of production to the other. Be specific and keep some things for yourself.

For a niche market one has to address the people that really like chicken, those are the ones that will also experiment with niche products and thereby increase their total poultry consumption. In this way successful niche products can prepare and stimulate a market for the ‘in-between’ product, a product with extras compared to the standard for a 10-20% higher price, and the other way around.

The niche products are, almost by definition, products for a home market. The buyers will have a direct bond with the product. The producer and the product are not anonymous. A bulk product is of reliable and standard quality, independent of the producer; there is no direct connection between the buyer and the producer. This part is taken over by the supermarket. This mechanism implies that indeed bulk and niche have to be kept separate. The niche market for primary producers fits in the Dutch system of independent broiler farmers.

Last but not least among the conclusions was the notion that the poultry sector itself should work on the attitude of respect for all (different) production systems. To develop niche products the sector should not wait for stimulation or support from the government or research institutes, but has to take the lead if specific knowledge is required or if rules and laws are identified that hinder developments.

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**References**


