

Value Added Opportunities Based on Animal Care

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■ Introduction

Fifty years ago, most consumers still had grandparents or relatives that lived on farms and were involved in production agriculture. The average consumer still had a direct “connection” to agriculture. That is not the case today. Customers and consumers are asking questions about environmental performance, animal welfare, food safety and security and worker care issues. Animal agriculture is facing increased pressure and growing questions about our production systems and practices. Activist groups opposed to contemporary production practices are pressuring customers and initiating legislation and litigation to change the way we operate.

Today, there is little understanding of livestock production and a general lack of trust in our practices. Animal agriculture is challenged by anthropomorphism, affluence, and agricultural alienation.

Americans spend less on their food than any other country in the world (Plain, pers. comm.). They spend such a small percentage (less than 10%) that they can demand food where they want it, when they want it, in the portion they want it, prepared in a manner of preference. They now are demanding non-product specific attributes from the food system. These attributes include animal welfare, environmental stewardship, minimal use of animal health products, and worker care. This list of socially responsible attributes is growing and becoming more embraced by the supply chain each day. At a recent conference a fast food representative told attendees, “Companies like ours are being held accountable for many things beyond our control.” Among the areas he cited were environmental, animal welfare, human rights, and biotechnology issues. He also cautioned, “It’s not just the radicals” who are concerned about such topics, “It’s the common customer.”

With less than 1.6% of the population engaged in production agriculture, it is little wonder we suffer from agriculture alienation. The vast majority of Americans are at least three generations removed from agriculture. In a recent Animal Agriculture Alliance survey, 81% of the participants under 34 years old and 85% of those under 25 years old had never lived or worked on a farm.

■ Socially Responsible Production

Socially responsible production is a crisis ready to hatch. It is already apparent that in the areas of animal welfare and environment it has already hatched. These socially responsible production discussions can be quite difficult for those in animal agriculture especially those involving animal care. Historically we have enjoyed public understanding and acceptance. We have seen the acceptance erode over the past several years. Agriculture has been slow to respond to questions from our customers and consumers. We are quick to “attack the attacker” or respond with science, data, and production information. The acceptance we have had in the past from consumers can no longer be taken for granted. To be successful today, animal agriculture must understand and address the consumers’ questions of trust and their values.

If livestock production practices are perceived as being inconsistent with the values of customers and consumers our practices will face opposition. As a result, when customers and consumers ask questions about animal welfare and we respond only with science and data, we will be perceived as uncaring and non-responsive. We can no longer take the stand that animal performance results is the answer to proper animal welfare. The questions asked by consumers are based on compassion and care and we (agriculture) are responding with economic or production related information in the name of science (Jameson, pers. comm.). These responses are perceived as inadequate and the credibility of both the message and the messengers are questioned. In a survey conducted by and Animal Agriculture Alliance, the hog farmer, the dairy cattle producer, and the National Pork Board were the least believable sources in the treatment of farm animals. The Humane Society of the U.S. (HSUS) was one of the most believable sources.

In a recent survey by Golin/Harris a dangerous combination of understandings was unveiled. Fifty one percent of consumers have a low knowledge about animal care issues and practices, yet fifty percent said that animal care was very important when deciding which food to buy, brand preference to select, and which grocery stores to shop. As we can see from this survey, the animal care issue has been escalated above the farm level to the retail level and further to the brand level. In the same survey, it was noted that the bigger agriculture grows the worse its reputation. The same statement was

confirmed about national grocery chains, food processors, and fast food chains and restaurants.

■ Higher Expectations

The issues have escalated. Even though animal welfare today is not a top-of-the mind concern for those who purchase meat, there is a societal expectation that animals used for meat will be treated humanely (USDA, 2004). Those who do not believe animals are being treated humanely or have other additional agendas are seeking changes by pressuring consumers, initiating legislation, and litigating against certain production practices.

Animal rights group's coffers continue to grow and they will continue to apply pressure. It is estimated that the Humane Society of the US (HSUS) will have a budget in excess of \$145 million for 2007. This group is delivering main stream messages and has merged with or works with many other animal rights groups. HSUS membership is over 9.5 million and growing. Its new structure will allow for more litigation. The group employs over 400 people with in-house litigation teams that are active in both state and federal courts. As these and other groups apply pressure, agriculture, grocery chains, food processors and fast food chains and restaurants must adequately address the welfare question to maintain the trust and confidence of our customers and consumers.

Retailers of farm livestock products know their markets depend on customers' confidence that farm animals are treated humanely (Anonymous, KSU). As a result, more and more retailers are demanding that suppliers be able to document humane animal treatment. Suppliers in the beef, pork, and poultry industries must develop animal welfare programs that satisfy their retail clients if they expect to keep those clients.

The demands for socially responsible production practices will continue to increase. As production agriculture continues to become more and more integrated, it becomes more efficient to transmit these demands through the chain. These demands will initially be focused on market leaders, but will eventually become industry standards as the practices initiated by innovators are adopted by early adopters and followers.

At the very center of this issue are the livestock producer's morals and attitudes. It is an issue that has, for the most part, fallen under industry self regulation rather than government control. That could change, however, if the industry fails to address the issue head on and in a timely manner. Social pressure is driving the livestock industry to scrutinize its production practices.

Customers, consumer groups, animal rights activists, and others are calling for action right now.

■ **Livestock Producers and Socially Responsible Issues**

How will livestock producers address these issues? Livestock producers have four choices:

- Do nothing, let activists define the issues for them,
- Self certification using self-endorsed programs and policies,
- Government oversight and regulation or
- Third-party certification and verification.

As producers make their decisions they need to keep the following in mind. Animal welfare should not be looked upon by producers as being anti-livestock or anti-production agriculture. Rather, animal welfare should have the overall goal of maintaining the long-term sustainability of livestock production for current and future generations of producers.

As we look at the above choices, we must apply the following rules to each choice. Does it provide a measurable, verifiable, defensible program that will be accepted and trusted by the consumer? The first choice, do nothing is a non-choice. Producers who choose this route will not be sustainable. Over time, they will not be able to find a market for their product.

The second choice of self certification is the choice that many producers and livestock associations have chosen for their members. Let's apply the four rules to self certification. Is it measurable? Yes. Is it verifiable? No. Is it defensible? Doubtful. Will consumers trust this program? No. As we pointed out earlier consumers do not trust agriculture as they used to. The larger the livestock operation the less consumers trust what they say.

The third choice of government oversight and regulation would be the least desirable of the four choices. If production agriculture fails to face the challenge of animal welfare head on and in a timely manner, activists, consumer complaints and other forces will leave the government no choice but to get involved. We merely have to look at Europe to see how this can occur and the results it has had on production agriculture in those countries. The issues in question would imply relatively heavy-handed and inflexible regulations by the government. Government agencies would have to ensure compliance through enforcement. One cannot always assume that a government provision would solve the problem. It has also been noted in consumer studies that many consumers do not find government certification to

be credible. Government standards also tend to be inflexible and may not respond quickly to changing industry conditions.

The last choice, and the choice that Validus and its customers have chosen, is third-party certification and verification using industry standards as the basis for the certification process. A Third-party (independent of buyer and seller) providing a series of services such as standard setting (defining industry practices that improve animal welfare) and certification and verification (through an assessment and audit process). Let's apply the four rules to third-party certification and verification. Is it measurable? Yes. Is it verifiable? Yes. Is it defensible? Yes. Will consumers trust this program? Consumer studies say yes.

Validus has also completed several consumer studies and reviewed many others conducted by various sources. Consumers are interested in non-product attributes in animal welfare and other social responsible attributes that can be certified. Consumers would alter their purchasing behavior to accurate information on non-product attributes that can be certified. The certification process and certification provider in both cases needed to be trusted and believable to the consumer.

Validus also involves one other very important piece of the puzzle. A certified product will have no impact on consumer behavior unless the consumer knows about it (USDA, 2005). Our third-party certification program allows firms to develop a label if desired to reinforce the message of certification. A label reinforces the message of certification through many repetitions. Labels, however, must be effective in conveying the message and information that is sought by consumers.

■ **Third-party Certification Program**

Why would livestock producers pursue a third-party certification and verification program in animal welfare?

- The processor or retailer to which they market their product requires it.
- Capture additional margin or market share.
- Differentiate themselves in highly competitive markets
- Identify and correct any animal welfare challenges before they become an activist issue.
- Enhance their relationships with processors and food companies.
- A producer owns the processing system and wants to differentiate the product from the competition.

As we look at the reasons for producer participation in a third-party certification and verification program in animal welfare listed above, they can be treated individually or as groups. It is interesting to note that as we try to separate them into individual reasons, time will eventually combine them.

The processor or retailer to which they market their product requires it. Some retailers are beginning to require third-party certification of their suppliers. Companies with this experience indicate they recognize value in five areas:

- Developing and expanding market opportunities;
- Bringing diverse perspectives together for creativity and innovation;
- Building brand equity and reputation;
- Assurance that food meets their criteria for social responsibility;
- The ability to manage risks.

What does this mean to a typical chain grocery store? This particular chain's average store has a 5.87% share of the local market. If this average store can offer a unique product, such as animal welfare certified dairy products, that appeals strongly to even 10% of their local market, the opportunity for the store will be viewed as huge. If this chain is the first in their local market, they will have a sustainable lead in this category. As we look at the future for retail grocery stores, non-traditional products are expected to control 39.7% of the market by 2008, up from approximately 25% today (Feedstuffs, 2006). Third-party certification provides an opportunity for the retailer to assure their customers that they are truly offering a certified product that meets defensible standards for socially responsible production on the farm.

Consumers see little to no differentiation in major grocery chains. Eighty four percent of consumers believe large traditional chains are all alike and don't offer anything special. The major grocery chains are being forced to change this philosophy as they watch the success of Whole Foods, Wegemans, Wild Oats and others (see References for websites). The "class vs. mass" approach by these regional and specialty grocers are fueling dramatic increases of premium priced products. As we can observe by shopping at any of these stores, change is starting to take place. It is now proven that consumers are willing to pay for products they deem "value added". Almost \$11 billion of organic food and beverages were purchased in 2004, an increase of more than 18% from 2003. This trend continues. Third-party certification provides an opportunity for the retailer to assure their customers that they are truly differentiating.

Forward looking food chain companies are looking for a competitive advantage and a way to protect their brand. The consolidation in food retailing has resulted in the top 10 firms now selling 75% of food at retail in the US. Brands are sensitive to social pressure as more consumers are

interested in non-product specific attributes like welfare, environment, animal health products and worker care issues (see References for websites). The third-party certification provides an opportunity for the retailer to protect their brand and stock from activist attack by demonstrating their commitment to social responsibility. At the same time, a third-party certification provides an opportunity for food companies to differentiate themselves using non-product specific attributes of socially responsible production.

Finally, third-party certification allows the food chain companies to manage their risks. The investment allows protection of their brand from a serious welfare incident which, right or wrong, consumers may hold the brand responsible for what happens in the supply chain. It also gives them the ability to help manage activist impact on customers and share price based on a serious welfare incident.

Producers will participate in these certification programs to either increase market share or increase price for their products. What will the producers look like that participate? They will be progressive, early adopting producers with scale or involved in some type of business relationship that gives them scale. They will be looking to certification to give them a competitive advantage in the market by increasing confidence that the product they are offering meets the socially responsible farming methods demanded by some of today's consumers. They will be very aggressive in pursuing this competitive advantage.

These producers will be keenly aware of the growing demand for certified products and want to become a part of a market that meets this demand. They will also view the commodity market as a path that supplies them with a very limited future. As they analyze entrance into this new world of marketing, they will want to see how much value they can add and redefine the current marketing culture. Above all, they will be looking to redefine tradition and seeking a new model to manage change.

There are producers that own the processing system and want to differentiate the product from the competition. These producers have a positive, "expansionist" vision and a plan for the growth and prosperity of agriculture in the 21st century. They see the future in an integrated farm model in which socially responsible production will combine to create success. They believe that innovation, as well as state-of-the-art technology and processes can be merged with traditional agriculture values to create high quality products and efficient management. They will seek out retailers that want to differentiate themselves from the major chains that are interested in high quality specialty products that only they can provide. To increase the value of these products a third-party certification program will guarantee they are producing these products using socially responsible production.

■ Conclusion

The demand for socially responsible production practices such as animal welfare will continue to increase. These demands will eventually become industry standards as the practices initiated by the innovators and early adaptors are adopted. As time passes, socially responsible production will become a requirement for doing business.

As we increase both the distance most consumers have from the farm and the level of technology we implement in food production, consumers will become more interested in social responsibility. That means producers will have to become more and more concerned about non-product specific attributes like animal welfare, environmental stewardship, the use of health products and worker care issues. Science alone will not prevail. It is not persuasive in a value-based culture. The list of socially responsible production attributes is growing and being embraced by more of the supply chain every day. Trust must be built between the consumer, processor, and the producer. Building trust will require transparency, professionalism, and third-party certification and verification at all levels of production and processing.

The biggest trend in the food system in the next two to three years will involve increased focus by food marketers and others on how producers operate their farms. Specifically, outside sources will want to know a lot more detail about how producers care for their animals, how they care for the land, how they care for their workers, and how they produce a safe product. Third-party certification will be called upon to verify and certify products produced on these farms.

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