Leatherhead Food International

MLA
Key Developments in the Meat Industry

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Contents:

The trend in portability in the US meat snacks market

Sales in the meat snacks sector in the US were worth in excess of US$303 million in 2006. Currently the sector is not gaining in sales with year on year trend in decline by 1%. The target audience for meat snacks, 15 to 34 year olds, has been a declining demographic. Nevertheless, the anticipated US population growth of 26.8 million from 2000 to 2010 will enable expansion, particularly to new target age groups, for instance the over 55's.

The brands leading the segment are Oh Boy! Oberto (from Frito Lay), Jack Link's (Link Industries) and Slim Jim (ConAgra Inc.). Private label also figures strongly.

Meat Snacks, Total US, 2006

	US$ Sales	$ % Chg Y Ago	$ Share	Unit Sales	Unit % Chg Y Ago	Unit Share
Dried Meat Snacks Category	**$303,215,300**	**-1.0**		**101,914,600**	**-2.7**	
1. Oh Boy Oberto	$62,901,600	-3.1	20.7	12,379,540	-5.0	12.1
2. Jack Links	$61,024,040	32.0	20.1	16,740,350	26.4	16.4
3. Slim Jim	$50,074,170	-2.7	16.5	31,946,660	-5.7	31.3
4. Private Label	$27,544,720	22.9	9.1	7,713,707	25.6	7.6
All Others	$101,670,770	n/a	33.6	33,134,343	n/a	32.6

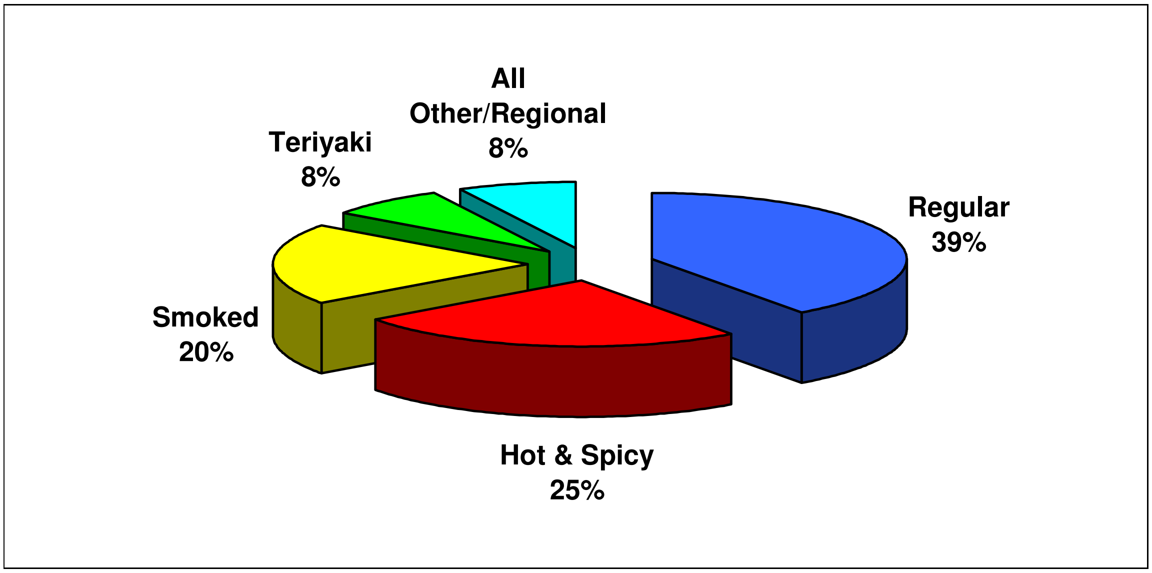
The advantage of meat snacks in jerky, strip, or nugget form is that they are shelf stable and need no refrigeration, hence their popularity among active men and those with a busy lifestyle. As the range and flavours increase, these low fat, high protein convenience snacks diversify their demographic user profile, with parents now keeping them in their car for snacks for their kids after school to tide them over till dinner and business executives using them as meal replacement through meeting filled days.

It is packaging trends that are helping to reinforce the importance of convenience and portability. This ranges from resealable packaging to easy peel film, which have now become standard in the category. This adds strength to meat snacks positioning on portion control which consumers are looking for, for example the convenience of smaller pack sizes. Convenience, healthy choice, and meal replacement are three key consumer trends in snacking in the US.

With many product completely free from trans fats, and because of their high protein content, the meat snacks today are particularly consumer friendly. Women have become more acceptant of meat snacks as the category has broadened into turkey and chicken, products with a more tender bite. For example, Jack Link's worked with Tyson Foods to introduce Tyson Buffalo-Style Chicken Chunks. Beef, however, because it was the first, is still the dominant protein.

Flavour profiles are being enhanced in the category. The greatest challenge is to retain moisture, which is critical since moisture carries flavour. Regional flavours, for example wasabi, are beginning to play a bigger role.

Sales of Meat Snacks by Flavour, Total US, 2004



Meat snacks used to be marketed primarily in convenience stores but today they can be found throughout retail food stores, and even on counter-top displays in drug stores.

Looking ahead, meat snacks are well positioned to tap into the trends in health and wellness, and the high protein content will be a key advantage. The use of other meats will evolve giving leaner products and we may also see the influence of (Ethnic) restaurant flavour trends in product NPD, opening the way for new demographics to be reached by meat snacks.

Canadian organic meat finding its niche

Humble beginnings with the launch of a line of ‘natural beef’ products in the early 1980’s were clearly ahead of their time and largely ignored by the consumer. Now though, organic meat is a premium niche category that is filtering into the mainstream. Organic beef and pork do remain somewhat of a rarity though in supermarkets because of their premium pricing (they can be up to three times higher than conventional pricing). That said, production is increasing and, as demand expands, this is expected to pave the way for lower price points.

To date, little data exists on the composition of the Canadian organic market. Leatherhead Food International estimates that the Canadian organic meat market was worth CAD29m in 2006.

Back in 2004 Mario Maillet, General Manager of Distribution Aliments Breton, was quoted as saying that the Canadian organic meat market was growing by around 25% annually. Indeed, it had been growing (from very small levels) at around 25% annually in prior years. Organic in Canada even today remains a little way behind consumption levels seen in Europe. Growth rates of this level are attractive to producers since the food industry as a whole in Canada is growing at a level of around 4% per year.

Issues around nutritional labelling have caused a degree of confusion both among producers and consumers but, as demand for organic has grown, so to have the marketing mechanisms. To put a claim on a meat product where the animal has been raised by alternative means (for example, ‘raised without the use of hormones’), a producer must register this through the stringent protocol of the Canadian Food Inspection Agencies (CFIA) ‘Process, Formulation and Label Registration Unit. The Canadian Government is currently trying to establish a system to regulate the use of the ‘Canada Organic’ product legend, whereby the Government would assume oversight with the CFIA acting as the competent authority.

Organic Production Practice

	Certified Organic
Feed	100% of feed is organic; could be grass fed
Antibiotics for treatment of disease	Yes, recorded and withdrawn from the program
Antibiotics for growth	No
Vaccinations	Yes (with some restrictions), recorded
Hormonal growth promotants (HGP's)	No
Livestock handling	Reccomended practices
Days on feed	Longer

Consumers with rising incomes and health and wellness concerns have been the key driver in the growth in organic and natural products. Add to this that Canadian consumers ‘expect’ that everything they eat is safe and there is a clear platform for the development of organic meat in Canada. The 2003 BSE outbreak, for example, turned some people away from beef and the niche of organic is seen as positive for the industry since it markets the products based on how the beef is produced.

Many consumers in Canada associate the word ‘organic’ with higher safety standards and healthier eating. 55 per cent of Canadians claim to eat organic occasionally or more now (compared with 30% two years ago).

Supply issues are a key issue since retailers require constant quality and volumes. Lastly, there is also the problem of carcass utilization to solve, due to difficulties in predicting demand for high price point organic products.

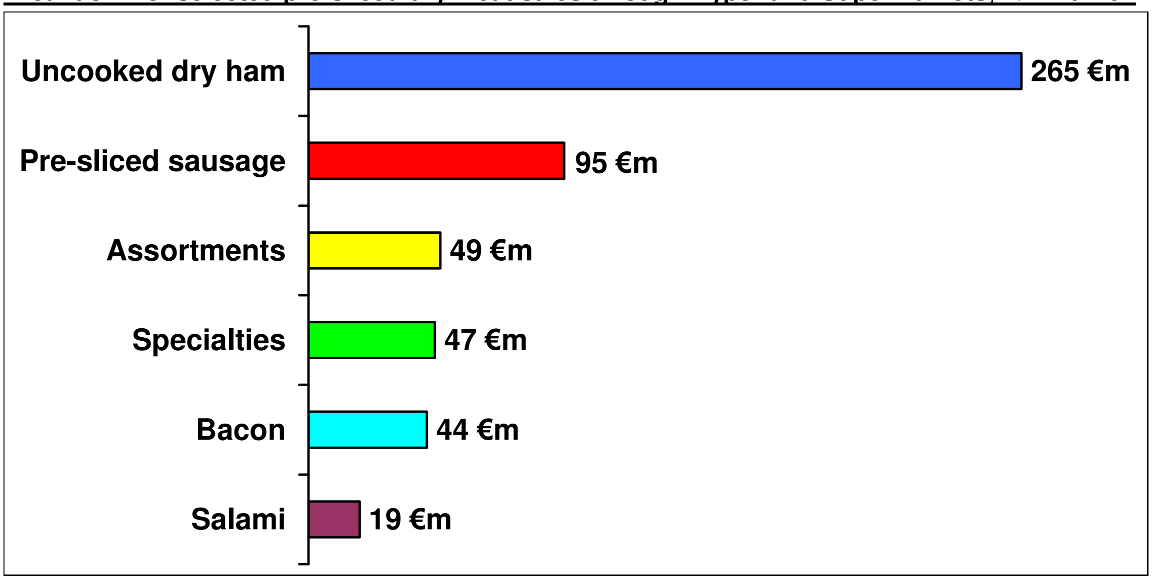
Dry meats fairing well in France

The dry meats category in France is fairing relatively well, considering that, in the French meat market as a whole, meat consumption fell from 91.8 kg in 2003 to 86.8 kg in 2006. Sales of canned pate fell, as did sales of canned corned beef; sales of fresh sausages are showing strong growth, whilst sales of raw ham and sliced charcuterie are also on the increase.

The modern retail sector accounted for 83.1% of total meat sales (42.2% via hypermarkets, 27.3% via supermarkets, 0.9% via superettes and 12.7% via hard discounters), specialist retailers (butchers) contributed 10.8%, markets 2.9%, direct sales 0.9% and other outlets 2.4%.

Within the dry sausage and ham categories in France, in the year to 4 March 2007, pre-packed dry meat product sales through French hypermarkets and supermarkets included EUR464m of whole dry sausages and EUR537m of pre-sliced dry meat products. Sales of dry meat products over the counter in France were valued at EUR308m in 2006 (up 3.6%), with uncooked ham accounting for 66.7%, 'rosette' 9.3%, dry sausage 8.6%, 'pave' 5.1%, Chorizo 3.1% and salami 1.3%.

Breakdown of selected pre-sliced dry meat sales through Hyper and Supermarkets, Y/E Mar '07



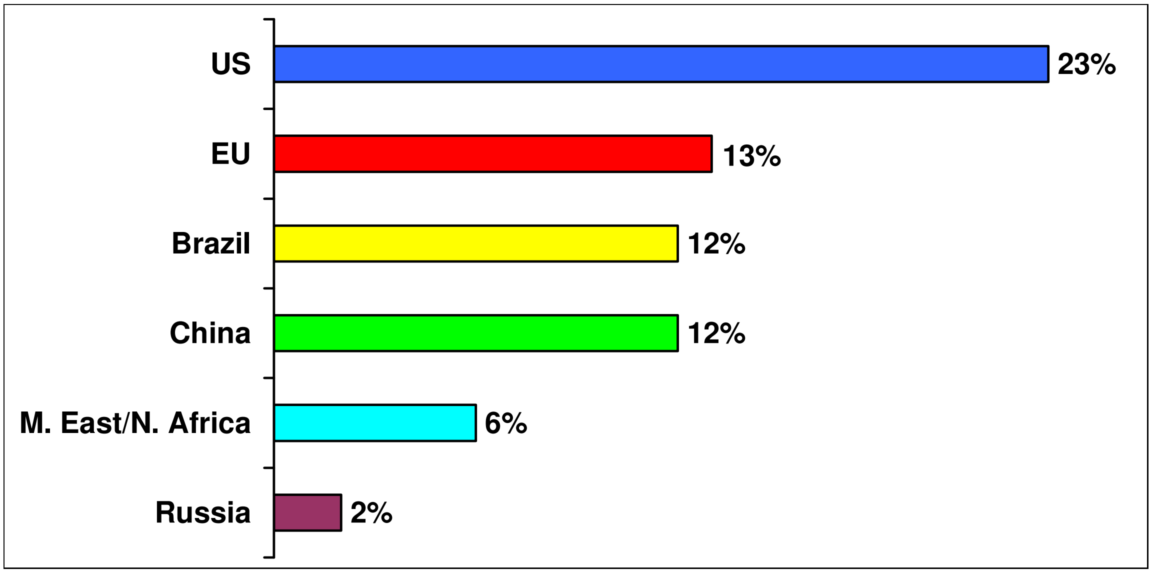
Within the dry sausage market, standard own labels are strong, holding 34.4% of the total market value in France. Other than a small market for economy own label (2.4%), the remaining products are branded, with 'Justin Bridou' (from Smithfield-Aoste) the category leader with 19.4% market share. The number two brand, also owned by Smithfield-Aoste, is Cochonou with 8.8% of value.

In the dry uncooked ham category, standard own labels also take over a third of the market (35.4% by value). Economy own labels are more prominent (15.2%); the leading brand is Aoste with 17.7% of value.

Brazilian poultry, now and next

Brazil is the world's third largest producer of chicken and it vies with the US (in terms of volume) as the world's largest exporter. Exports of chicken from Brazil totalled 2.85 million tonnes in 2005 out of total production of 9.35 million tonnes and it is anticipated that these exports will rise by at least 300,000 tonnes in 2006 (the industry will be earning over USD3bn from exports).

World's Leading Producers of Poultry Meat, 2006



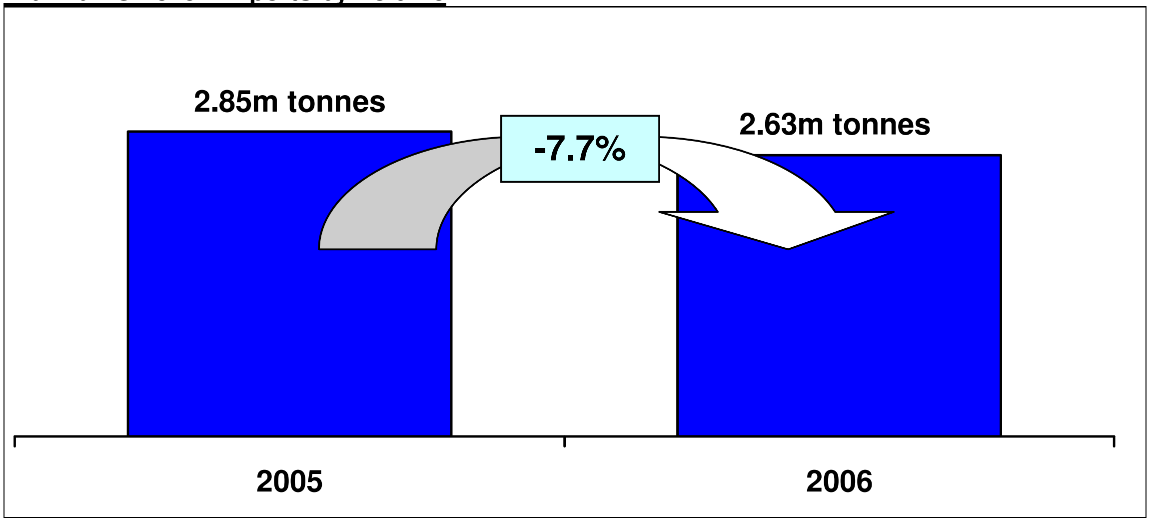
Although Brazilian chicken exports have doubled since five years ago, 8% less was exported in 2006 than in 2005 because the phenomenon of avian flu (which appeared three years ago in Thailand and allowed Brazil to fill export gaps to Japan, Europe and the Middle East) no longer benefited Brazil.

The spread of avian flu to Russia, Eastern Europe and some Mediterranean countries, plus the odd outbreak elsewhere in Europe, impacted on consumer confidence and changed the picture for Brazilian exports. Many countries throughout the world reduced their imports. Not only was less chicken being exported, its price fell sharply too. Impact of these falls was magnified by the rise in the Brazilian currency, the Real, against the US dollar. Many of the large Brazilian companies have posted significant losses recently.

This was not the end of the story since the EU (since their market had also been impacted) were able to impose quotas on the amount of processed chicken and turkey meat that could be imported, meaning high tariffs for any extra quota amount imported.

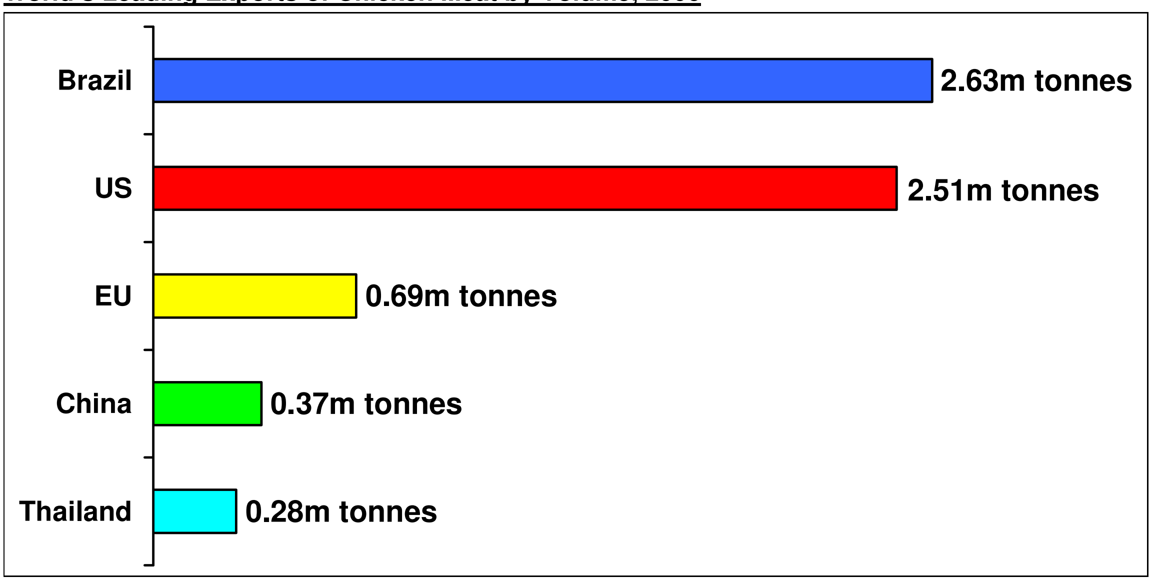
This move may only draw out the difficulties for the poultry industry in the EU since Brazilian production costs are only half that of their EU counterparts. The semi-tropical climate means that barns do not have to be heated for most of the year. Feed (normally locally grown) and labour costs are a fraction of those in Europe.

Brazilian Chicken Exports by Volume



Chicken meat exports from Brazil were worth in the region of USD3.086bn in 2006. With the problems described though, it is going to be difficult to raise prices which will mean the industry will struggle somewhat over the coming year or two.

World's Leading Exports of Chicken Meat by Volume, 2006



Despite these difficulties it is anticipated that Brazil will be able to export more than 3 million tonnes of whole birds, cuts and processed products in 2007.

Total world output of poultry meat stood at 83.5 million tonnes in 2006; it could break 100 million tonnes by 2015. The US will remain the leading producer, with output rising from 19 million tonnes in 2006 to 22.4 million tonnes in 2015. Chinese production is set to rise from 14 million tonnes to over 16 million tonnes, while Brazilian production will rise from 9 million tonnes to over 12 million tonnes.