THE MEAT WE EAT: DIFFERENCES BETWEEN AUSTRALIAN AND AMERICAN CONSUMER CHOICES AND BUYING PRESSURES REGARDING RED MEAT PROTEIN & WHERE AUSTRALIA CAN CAPITALISE

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Introduction

The 15th of November 2022 marked a significant date in the history of human evolution, the global population ticked over 8 billion people. This represents a 406% increase from a century ago and the trend is guaranteed to continue, projected to hit just shy of 10 billion people by 2050 (Roser, et al., 2023). And the global debate remains centred around one of the most obvious but fundamental questions, how do we feed all these people? As former Zimbabwean politician Roy T. Bennet famously remarked, “Every challenge, every adversity, contains within it the seeds of opportunity and growth.”

And for the Australian red meat sector, the leading exporter of beef, veal, lamb, mutton, and goat meat to more than 100 countries, this opportunity for further growth will be determined by our ability to identify niche market opportunities which value our product and how it is produced (MLA, 2023). Australia has a reputation around the world as a leading producer of high quality, safe and nutritious red meat, underpinned by strict traceability and quality assurance systems, and world-renowned animal welfare and sustainability standards. Meat & Livestock Australia’s (MLA) regional manager for the North American market Doug McNicholl, outlined that the 2030 plan is to double the value of Australian red meat sales and become the most trusted source of the highest quality red meat protein around the world (McNicholl, 2023). However, as red meat continues to become a more luxury product compared to alternative protein sources, and Australia continues to become less competitive in the global market due to our extraordinary increases in cost of production in recent years, there is without doubt that our solution to achieve this goal lies within targeting niche, high value markets that value the unique benefits of purchasing ‘Aussie Beef & Lamb’.

Now any person who has ever spent any length of time in the US know that the Americans take pride in being unique and unconventional. In the ‘land of the free’, there are no ceiling lights in hotels; sales tax is added at the register; if the word ‘big’ is mentioned on a menu it will typically satisfy a family of four; roundabouts are non-existent; and they typically have never tasted lamb. With this said, what this report will aim to analyse is why the US consumer base presents some of the most attractive niche market opportunities for Australian red meat by comparing the key similarities and differences in consumer choices and buying pressures between both US and Australian consumers.

1. Consumer Choices

1.1 Red meat consumption & protein popularity?

The 21st century has presented an array of new challenges facing the industry, one being the ever-increasing rise in the adoption of plant-based diets with an astronomical 5,000% increase in google searches for "vegan food near me" in 2021 (Starostinetskaya, 2021).Whilst this trend is profound and worthy of taking note, it is highly blown out of proportion with well-regarded demographic survey studies revealing that 81% of US consumers still agree that a healthy lifestyle must include a balanced omnivorous diet (MLA, 2022). With as many as two in three Australians (72%) believing that a solely plant-based diet would not improve overall health (Haynes, 2022). As a matter of fact, when it comes to analysing consumption statistics, both the Australian and the US remain two of the highest, most stable meat (particularly red meat) consumption countries throughout the world. This is not only due to cultural importance and domestic production, therefore availability, but more influentially, an extremely affluent consumer base with 79% of US and an astonishing 94% of Australian households earning US$35,000 or more in disposable income per annum (MLA, 2023).

The 2019 meat consumption data released by the Food and Agriculture Organization (FAO) of the United Nations, revealed that the US and Australia are the 2nd and 3rd highest meat consuming countries globally (Figure 1.), devouring approximately 151kg and 142kg respectively (Ritchie, et al., 2021). To fully put this into perspective, 98.5% of US households buy meat with the average American consuming 7,000 animals and approximately 11 cows throughout their lifetime (Durando, 2015).

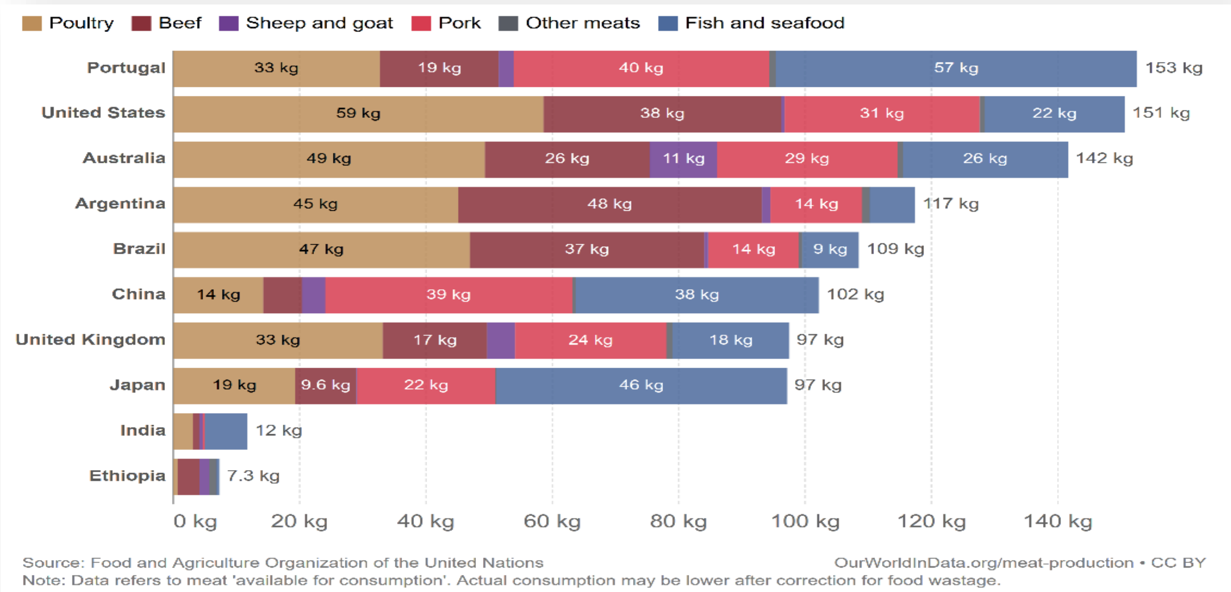

Figure 1. Per capita meat consumption by species and country (FAO, 2019)

As illustrated chicken, beef and pork are the three most popular proteins consumed throughout both nations, with chicken being the clear favourite making up 39% and 34% of US and Australians annual protein intake. There is a notable disparity in the consumption of beef with the average American consuming 12kg more every year. However, one of the clear distinctions in dietary comparison is the consumption of goat and sheepmeat with the average Aussie eating 10 to 11kg more every year.

Lamb remains one of Australia's favourite proteins and not surprisingly we are among the largest per capita consumers of lamb throughout the world. Lamb remains a niche market and unfamiliar protein for around 40% of US consumers, challenged by concerns around the taste, familiarity, and limited knowledge of preparation methods (MLA, 2022). Interestingly, the consumption of game and exotic meats is widely popular throughout the US unlike here in Australia. It is estimated that more than 15 million citizens participate in recreational hunting and nearly 30 million participate in recreational fishing on an annual basis (Conservation Visions, 2016).

1.2 Specific cuts & how often?

Red meat remains not only the most nutritional dense food accessible to humans, but it also happens to be one of the most flexible and versatile products, and over the course of thousands of years, has been prepared and eaten in many different styles and fashions. Beef for example can be broken into 8 major primals and hundreds of retail cuts, and is consumed in almost every cuisine throughout the world. Whilst there are some comparable trends in cut popularity between Australia and the US, there are also some prominent differences.

Figure 2. Whole Foods supermarket ground meat cabinet in Amarilllo, Texas.

With convenience king in the 21st century, I doubt any food is as iconic and culturally ingrained than the American hamburger. Fresh ground (mince) meat is the most widely consumed meat product among Americans, with an estimated 40-45% of beef consumed as ground, and over 71% of beef consumed in the foodservice sector in the form of a patty. (FAS, 2023). From there, the major high value cuts are the next popular which include, the ribeye roll (cube roll), loin (shortloin), tenderloin and sirloin (rump) which is comparable in the Australian domestic market. Another pronounced difference from here is the consumption of brisket, once a low value cut with low eating quality potential has become a national symbol in some parts of the US through the phenomenon of barbequing. The American grill and barbecue market was valued at an astounding $2.65 billion in 2020 and is forecast to surge to $3.28 billion by 2025 (Statista, 2022). When it comes to lamb, the most popular cuts are without surprise the loin and leg, accounting for 45% of volume share followed by lamb shoulder accounting for 19% volume share. The rack has also increased in popularity in recent years, now at 16% share of retail volume (MLA, 2022).

As the old saying goes, Australia was 'built on the sheep's back' and whilst this mostly referred to the dominant wool industry, much like the American hamburger, sheepmeat and particularly lamb remains one of Australia's most iconic and important dietary inclusions. In the first 6 months of 2022, MLA recorded that 74.6% of Australians purchased lamb on an average of 8.5 occasions (MLA, 2023). In staggering contrast in the US, sheepmeat consumption has been declining for decades, ever since the protein was fed to American soldiers in World War II in the form of canned mutton. This led to generations of US consumers that had a genuine disdain and revulsion for sheepmeat, and still today lamb remains a niche, undesirable protein for most Americans, and makes up less than one percent of overall meat sales (MLA, 2022). And whilst the millennial generation is once again increasing their willingness to include lamb within their diet, through mainly fine dining options, the major growth has been driven by ethnic and religious groups with lamb a dietary staple and the preferred protein choice in many Muslim, Jewish, Hispanic, Greek, Italian, Indian and Ethiopian cultures (Figure 3).

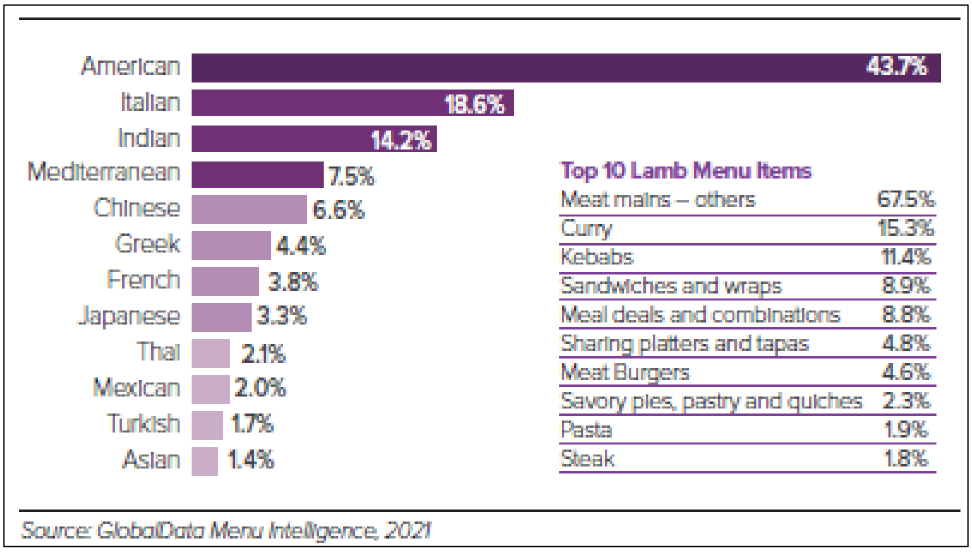

Figure 3: US lamb menu penetration by cuisine type (GlobalData Menu Intelligence, 2021)

1.3 Ready to eat / Cook from scratch / eat out comparison?

When analysing consumer spending patterns, stereotypical of 1st world developed nations, Australian and US consumers are both big spenders on eating out. According to a survey in 2019, 30% of the US consumers dine out over 3 times per month (Statista, 2019). In addition, data from the Australian Bureau of Statistics (ABS) revealed that dining out expenditure has jumped more than 55% in real terms since the 1980s, representing one-third of the average consumer's weekly budget (ABS, 2020). From a cook from scratch point of view, the regular American averages 4 homemade meals which include meat every week, a similar trend seen in Australia with almost three in four Aussie households likely to prepare five or more of their seven weekly dinners at home (Taillie, 2018), (MLA, 2023).

One market segment which has grown exponentially in recent times since convenience and easy meal prep has become one of the most significant market drivers, is the ready-to-eat industry (Figure 4).

Figure 4: HEB supermarket ready-to-eat cabinet in Lubbock, Texas.

The ready-to-eat or heat-&-eat market has grown at an average of 3.3% a year over the past decade in Australia (Taylor, 2022). Targeting the working population's hectic and dynamic lifestyle, the ready-to-eat segment in the US now amounts to a US$46 billion industry with The Food Industry Association's (FMI) 'The State of Fresh Food' report finding that 82% of food retailers in the US are planning to expand their space allocation for freshly prepared, convenient, 'grab and go' options (Figure 5)(FMI, 2022). These statistics illustrate the substantial change in the dynamics of what meal options the modern consumer is chasing and presents a massive potential opportunity for some niche market Aussie grassfed beef and lamb branded product into this market.

Figure 5: HEB supermarket ready-to-eat meal. Montreal New York strip with red potatoes & green beans.

1.4 Where consumers purchase?

The retail landscape for consumers to purchase red meat is constantly changing and particularly following the aftermath of the COVID pandemic. Supermarkets are still the dominant retail channel both in the US and in Australia with 82.8% of fresh meat sales sold through this channel (MLA, 2022). However, unlike the US, the Australian grocery market is highly concentrated with the two major retailers, Woolworths and Coles, controlling 60% of the market share (MLA, 2023). Whilst this is predominately due to convenience and price, US consumers in contrast, have much more variety with a range of mainstream retailers like Wal-Mart, Albertsons and HEB, to more niche market, high-end grocers like Whole Foods, Kroger, and The Fresh Market, for example.

One of the major repercussions of the pandemic has been the accelerated adoption of online shopping with 39% of US consumers becoming omnichannel shoppers and ordering at least some meat online in 2022. A slightly less but similar story in Australia (Figure 6.). As illustrated in Figure 6, the online sales channel is the fastest growing channel across the grocery retail industry with a 6-7% growth expected from 2021 to 2023 (MLA, 2022).

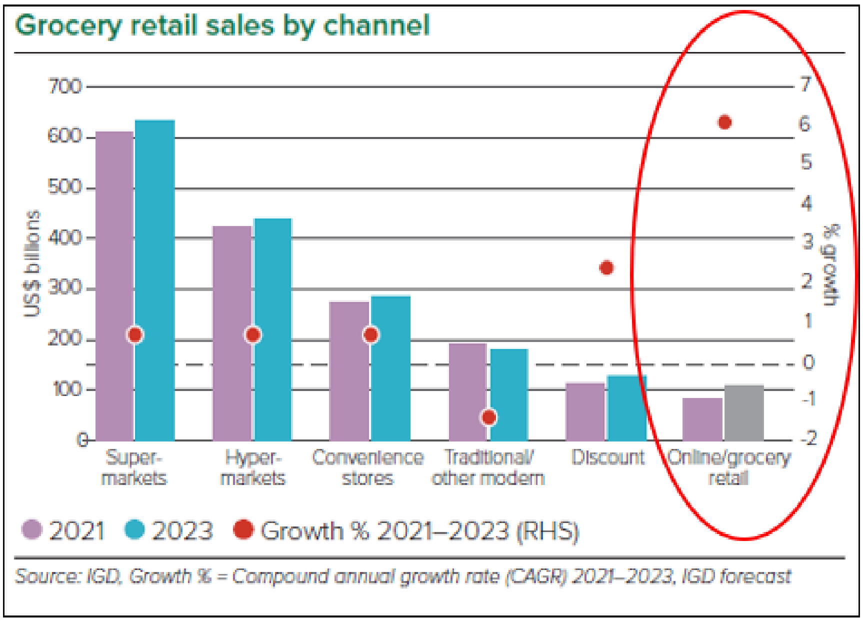

Figure 6: Australian grocery retail sales by channel.

A further ramification of COVID was the accelerated growth seen in the food box/meal kit delivery market with brands such as Hello Fresh and Marley Spoon as well as Sunbasket and Blue Apron in the US. This generally includes simple recipes with pre-portioned ingredients making for a quick, easy and convenient meal option. The meal kit market experienced a 57.8% and 68.5% increase in Australia and the US respectively in the last two years, and now penetrating 14.8% of Australian households and worth around $5.8 billion in the US (NRA, 2023).

The foodservice industry is a highly fragmented yet an extremely lucrative segment of both economies. For example, the Australian foodservice channel is estimated to account for 30% of total domestic beef utilisation. However, from a numbers perspective the Australian industry can't even begin to compete only valued at A$76 billion in comparison to a staggering US$731 billion industry in the US. The impact of the pandemic on the sector was severe and far-reaching sending 90,000 locations into foreclosure in the US and estimating to have cost the Australian channel 25% of its value (MLA, 2022). However, the industry is expected to recover quiet rapidly despite inflationary impacts and the rising cost of living with Australians recorded to have increased their spending on 'out-of-home dining' by 8.6% and approximately 24% and 30% of US QSR and fine dining patrons saying they will increase their spending in the next year (ABS, 2022). Beef continues to be the number one fresh meat protein consumed throughout the foodservice sector and lamb, particularly within the US, remaining a more luxury protein item for consumers mainly found in fine dining restaurants.

As illustrative by Figure 7., the Quick Service Restaurant (QSRs) or fast-food segment continues to dominate the foodservice industry across both nations, with ground beef patties in burger form being by far the dominate cut and form of consumption.

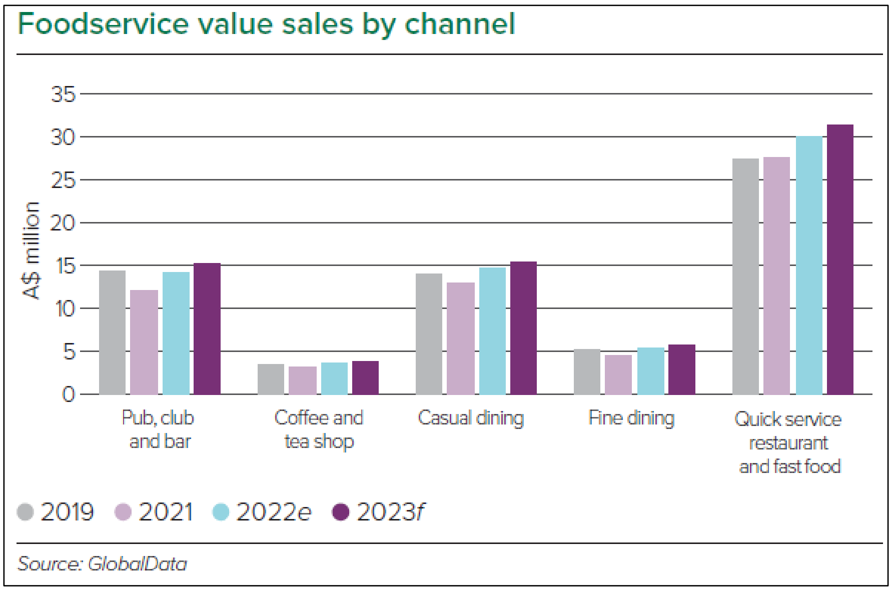

Figure 7: Australian foodservice value sales by channel. Dominance of QSRs' symbolic of most developed nations.

2. Opportunities

The above sections provide a reasonably concise overview and understanding of what we have principally known for a while, that Australian consumers love their lamb, value grassfed beef and are dominated by two major supermarket retailers. On the contrary, US consumers are accustomed to grain finished beef, consume an astronomical amount of ground beef, and enjoy experimenting with barbequing and their exotic game meats. But what can we draw from these comparisons and which areas within the US market present the most appealing opportunities for our industry moving forward?

As previously mentioned, red meat is continuing to become a product that only the more affluent consumers can afford and with Australia's significant cost of production, mainly due to our high labour and material costs, renders us basically uncompetitive on the global stage based purely on a supply and a quantity means alone. Therefore, as an industry we must focus on targeting the highest value, niche market opportunities which value the quality and messaging behind the way we produce our red meat. The following areas is where I believe the most value and opportunity lie within the US consumer market for Australian red meat (some of which we are already targeting):

2.1 Lamb

Unlike all other red meats, Australia has a significant advantage when it comes to lamb production, both from a quality and quantity point of view, when compared to any country throughout the world.

In the US, there has been a declining trend in consumption of locally produced lamb, coupled by high costs of production, more profitable farm business enterprises, predation and limited genetic improvements, are other factors restricting US production capabilities (MLA, 2019). Additionally, according to the Australian Trade and Investment Commission (ATIC), once per capita GDP in developed countries reaches US$40,000 overall meat consumption tends to plateau. However, as familiarity increases, sheepmeat is the only protein which has been seen to take a larger share of meat consumption in more affluent countries, even when overall meat consumption stabilises (ATIC, 2022).

Therefore, the challenge for the industry remains principally centred around breaking this culturally ingrained distaste for sheepmeat and educating consumers around how to prepare and enjoy a protein which is undeniably extremely versatile and flavoursome. And whilst MLA has been slowly gaining ground in this area in recent years, further industry support around trying to educate consumers faster could prove dividends for the Australia sheepmeat industry. However, until the point where lamb becomes a more familiar and mainstream protein on consumer's grocery lists, high value cuts into the fine-dining foodservice market as well as potential chilled product into the wholesale market targeting the ethnic groups mentioned above, are the most favourable niche market areas where Australia can capitalise.

2.2 Grassfed beef

The US is the largest beef protein market in the world, with around 97% of domestic production estimated as being grainfed or produced through intensive feeding operations. Whilst Australia's supply into the US has mainly consisted of manufacturing beef, through extensive marketing and branding initiatives conducted by MLA, a proportion of chilled premium grassfed cuts have been able to penetrate and become quite popular in the US fine dining market. The grassfed beef market has remained a niche but highly lucrative opportunity for Australia, accessing the upper echelon of affluent consumers who not only value a pleasurable eating experience but sustainability, animal welfare and health benefits as well. This was proved in a 2017 MLA US consumer tracker survey where 63% of consumers believing grassfed beef is better for the animals, and 50% considering it better for the environment.

Whilst recent cost of living and inflation pressures have slightly decreased consumption, dollar sales of grassfed beef have increased by 5.3% over the last year. The South-eastern region of the U.S experienced the largest increase in dollar sales and volume of grassfed beef sold, and notably while other good and commodities were subject to double-digit inflation rates (e.g. chicken) grassfed beef has only seen a more modest change in price (MLA, 2022). Furthermore, while price is still a purchase driver, MLA research has shown that we must focusing on continuing to charge a premium by targeting consumers which income exceeds $115,000 and within the age bracket of 18 to 49 .

2.3 Ready-to-eat & meal kit market

The 20th century is redefining the way in which we can package and sell red meat to the consumer, and as Steve Job's famously quoted, "innovation is the ability to see change as an opportunity–not a threat." Consumers are now more than ever demanding convenience and easy meal prepping options and the ready-to-eat and meal kit markets are presenting promising opportunities that should be further explored. Whilst the global outlook on the demand for red meat has never been more positive, competition in the international marketplace is intensifying with many countries (with much lower costs of production) seeking to increase their share of higher value markets. The global ready meals sector was valued at US$138.1 billion in 2021, forecasted to reach a staggering $408 billion in the next decade (Samriddhi & Roshan, 2022). This is an opportunity to shorten the supply chain, deal more direct with consumers and extract as much value out of the product we produce as possible. Recent work by MLA illustrated it is possible to increase profit by between 2 and 3.5 times that of chilled and frozen meat cuts (MLA, 2018). Therefore, although a substantial amount of product branding supported by further in-depth market research is required to bring this idea to life, it is unquestionably an exciting area.

2.4 Sustainability messaging

As Cameron Bruett, the head of corporate affairs with JBS USA, stated at a Melbourne conference in 2018, "sustainability is about doing more with less; being more efficient; and doing better today than you did yesterday, so you have the opportunity to improve tomorrow" (Condon, 2018). And there is without doubt that Australia is in a no better position to capitalise on this growing importance and demand by consumers for a sustainable product. The Australian red meat industry has the ability to produce red meat in a way that is socially, environmentally, and economically responsible, working with our land and upholding animal welfare standards that can't be matched by any of our major competitors anywhere throughout the world. The industry has collectively reduced greenhouse gas emissions by over 59.1% since 2005 and has achieved a 68% reduction in water usage since 1985 and now has a nationwide goal to become carbon neutral by 2030. Whilst we must maintain the drive for continuous improvement, we have yet to fully capitalise on this area as now consumers are not only aware of their environmental footprint but they're starting to pay a premium for more sustainable red meat options. Like most of these opportunities for the industry, there remains a huge investment into product branding and marketing to fully exploit our world-leading sustainability credentials, but this area presents a huge amount of possibility for industry in the years to come.

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