Aligning price signals throughout the beef value chain to reflect consumer preferences by assigning economic weights to the Meat Standards Australia (MSA) model inputs

By

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ABSTRACT

The international measure of beef quality has largely been associated with the increased presence of intramuscular fat, also known as marbling. Using a palatability analysis critical control point (PACCP) process, consumer research collated by Meat Standards Australia (MSA) over the last 20 years has demonstrated the interconnectivity of pre and post-slaughter treatments with the traditional measurements in relation to consumer palatability scores. This has enabled consumer grading of beef - predicting the consumers’ assessment of the specified meal as either 3 star (good everyday), 4 star (better than everyday), or 5 star (premium) eating quality for six cooking methods (grilling, roasting, stir-frying strips, slow cooking cubes, thin sliced, corned).

A commercial dataset (n=3,735) was collated over an eight year period that described the eating quality and yield of beef product offered to consumers using the MSA grading matrix of eating quality and cooking method. This dataset created an opportunity to overlay financial terminology to the various steps of beef production by aligning consumer choice about the predicted quality of beef with the production input variables. This financial information can overlay the PACCP process with economic weights for the production input variables, thereby contributing toward the creation of its financial equivalent (FACCP) for the beef industry. Generating effective long-term financial modelling by accurately linking consumer demand to production variables would help to secure future investment. Ongoing investment in the industry is essential to keep beef a competitive source of protein.

In this thesis, six measures of carcase yield – primal, trim, waste and fat, bone, loss, and saleable meat (SMY%) – were assessed to determine the most appropriate indicator of carcase value. The analysis found SMY% was the best indicator of carcase value, with a 0.85 coefficient of determination ($R^2$). SMY% was followed by waste and fat, trim, primal, loss, and bone with an $R^2$ of 0.72, 0.69, 0.42, 0.29, 0.28 respectively.

The SMY% measure was used in subsequent analyses to partition out the effects of yield and quality on carcase value. The carcase value is influenced by the pricing methodologies used in its calculation. To ensure the yield and quality effects were thoroughly explored, two pricing methodologies were compared:

1. A conventional pricing system that differentiates primal values within a carcase, but not between carcasses;
2. An MSA premium pricing system applying the retail willingness to pay thresholds where 3 star was the base, 4 star was 1.5x three star and 5 star was 2.0x three star pricing for retail portions;

The analysis found SMY% was the best individual indicator of carcase value. SMY% was worth $0.09/kg hot standard carcase weight (HSCW) per one percent change in SMY%, using either the conventional or MSA premium pricing models.

Ossification was significant in both the conventional and MSA premium pricing models, with or without SMY% as a covariate. The coefficient for ossification in MSA premium pricing model was $0.54/kg HSCW/100 points, without SMY% as a covariate. Neither of the coefficients for ossification in the conventional or MSA premium pricing model changed significantly with the inclusion of SMY% as a covariate. This suggests that the impact of ossification on carcase value is independent of SMY%.

In contrast, the coefficient for marbling more than doubled from $0.07 to $0.15/kg HSCW/100 points with the inclusion of SMY% into the MSA premium pricing model. The conventional pricing model coefficients improved with SMY% as a covariate. The improved value of marbling in both
pricing models indicates SMY% masks the impact of marbling on carcase value unless it is included as a covariate.

Females were worth more than castrated males in both pricing methodologies, with or without SMY% as a covariate. Using the conventional pricing model, the value of females over castrated males increased from $0.03 to $0.06/kg HSCW when SMY% was included in the model. Similarly, using the MSA premium pricing model, the value of females over castrated males increased from $0.02 to $0.05/kg HSCW when SMY% was included in the model. Only a $0.01/kg HSCW discount could be justified on the basis of SMY% difference, completely at odds with the standard industry practice of discounting females $0.05 - $0.10/kg HSCW in favour of castrated males.

Tenderstretching was only significant in the MSA pricing model, worth $0.27 and $0.32/kg HSCW respectively, with and without SMY% included in the MSA pricing model. This result demonstrates a high value impact on carcase value, particularly for a fixed effect.

The estimated percentage of Bos indicus (EPBI) was also significant in the MSA premium pricing model. The coefficient increased from $0.03 to $0.13/kg HSCW for animals with 18.5% EPBI, when SMY% was included into the MSA premium pricing model. Whilst significant, these results are only indicative due to the industry nature of the dataset and require further investigation using a balanced experimental design.

To calculate the relative impact of the three dominant traits in the MSA premium pricing model, the potential value impact was calculated using the range of elasticities, one standard deviation either side of the mean. SMY%, ossification and marbling were worth $0.58, $0.24 and $0.18/kg HSCW respectively. Using the average 241kg HSCW, this equates to potential carcase values of $140 for SMY%, $58 for ossification and $43 for marbling.

The results demonstrate the importance of combining MSA quality traits with SMY% to ensure effective feedback is provided throughout the value chain. Without this integrated approach, the priorities communicated are very different. Establishing an effective pricing methodology that incorporates both eating quality and carcase yield addresses the century old problem of not making progress because we study beef supply chain components in isolation, when in reality they are part of an integrated system. While looking for greater efficiency we need to be mindful to retain the beef characteristics that make it demanded by consumers. All efforts should be aligned to a common goal – a consumer focused product.

This study demonstrated that effective economic weights could be derived for the Meat Standards Australia (MSA) grading model inputs and saleable meat yield percentage (SMY%) traits associated with the beef industry value chain. Complimentary objectives can be achieved by providing consumers with distinct pricing alternatives based on eating quality, implementing a process of traceability throughout the value chain and incorporating an eating quality and saleable meat yield-focused payment for carcases. These results could be applied to an integrated value chain optimised for whole chain profitability.
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# TABLE OF CONTENTS

DECLARATION...........................................................................................................................................II  
ABSTRACT...............................................................................................................................................III  
ACKNOWLEDGMENTS.................................................................................................................................V  
TABLE OF CONTENTS.................................................................................................................................VI  
LIST OF TABLES...........................................................................................................................................VII  
LIST OF FIGURES..........................................................................................................................................VIII  

1. INTRODUCTION......................................................................................................................................1  
   1.1 Thesis Outline........................................................................................................................................3  

2. LITERATURE REVIEW...............................................................................................................................4  
   2.1 Measuring proportions of muscle, fat and bone.....................................................................................5  
   2.2 Current methods of valuing meat quality and yield...............................................................................9  
   2.3 Communicating value between supply chain participants.....................................................................11  
   2.4 Processing case study – Polkinghorne’s value chain............................................................................21  
   2.5 Effective beef value chains...................................................................................................................25  
   2.6 Opportunities.........................................................................................................................................27  
   2.7 Summary.............................................................................................................................................30  

3. EXPERIMENTAL METHODS..................................................................................................................33  
   3.1 Introduction............................................................................................................................................33  
   3.2 Materials and methods............................................................................................................................34  
      3.2.1 Livestock sourcing............................................................................................................................34  
      3.2.2 Livestock processing.........................................................................................................................34  
      3.2.3 Boning and fabrication....................................................................................................................38  
      3.2.4 Supply and pricing of retail cuts........................................................................................................43  
      3.2.4 Data analysis.....................................................................................................................................43  

4. THE EFFECT OF YIELD ON CARCASE VALUE.....................................................................................44  
   4.1 Introduction............................................................................................................................................44  
   4.2 Materials and methods............................................................................................................................45  
   4.3 Results....................................................................................................................................................47  
   4.4 Discussion / Further work.......................................................................................................................53  
   4.5 Conclusion............................................................................................................................................56  

5. THE INFLUENCE OF QUALITY AND YIELD ON CARCASE VALUE....................................................57  
   5.1 Introduction............................................................................................................................................57  
   5.2 Materials and methods............................................................................................................................59  
   5.3 Results and Discussion............................................................................................................................60  
   5.4 Implications............................................................................................................................................76  
   5.5 Conclusion............................................................................................................................................80  

6. SUMMARY...............................................................................................................................................81  
   6.1 Review of the study.................................................................................................................................81  
   6.2 Limitations of the study and opportunities for further research..........................................................84  
   6.3 Application of results.............................................................................................................................85  

7. BIBLIOGRAPHY.......................................................................................................................................87  

8. APPENDICES............................................................................................................................................94  

vi
LIST OF TABLES

Table 2.1: Prediction errors in the estimate of percentages of muscle, fat and saleable beef yield (SBY) (Reproduced from Johnson 1996) .................................................................................................................................................. 5

Table 3.1: The primal cuts collected on all carcases (n=1,237) .................................................................................................................. 39

Table 3.2: Primal cuts that differentiate the boning stratification groups ........................................................................................................ 39

Table 3.3: Boning stratification group numbers ........................................................................................................................................... 40

Table 3.4: Yield allocation for processing primals into retail ready products .................................................................................................. 42

Table 4.1: Means, standard deviation and range of carcase traits for animals used in the analysis (n=1,237) ........................................................................................................................................................................... 47

Table 4.2: The mean, standard deviation (stdev) and range of the six carcase yield percentages analysed ........................................................................................................................................................................ 48

Table 4.3: The F-ratio for the significance of fixed effects (gender, boning stratification, supplier, estimated percentage of Bos indicus and boning interval) and covariates (linear and curvilinear effects for kill date), along with different yield measurements on carcase value ($/kg) ...................................................................................................................................................... 48

Table 5.1: The F-ratios for the significance of fixed effects (gender, boning stratification, supplier, estimated percentage of Bos indicus, boning interval) and covariates (linear and curvilinear effects for kill date, ossification, marbling, hot standard carcase weight (HSCW) pH and rib fat) on carcase value ($/kg HSCW) when priced using conventional prices without saleable meat yield % and with saleable meat yield % included as a covariate .................................................................................................................................................. 61

Table 5.2: Model regression coefficients ($/kg HSCW) for continuous variables in the conventional pricing model with and without saleable meat yield (SMY) as a covariate ........................................................................................................................................................................ 61

Table 5.3: The F-ratio for the significance of fixed effects (gender, boning stratification, supplier, estimated percentage of Bos indicus, hang and boning interval) and covariates (linear and curvilinear effects for kill date, ossification, marbling, hot standard carcase weight (HSCW) pH and rib fat) MSA grade pricing of carcase value ($/kg) including saleable meat yield percentage .................................................................................................................................................. 62

Table 5.4: Model regression coefficients ($/kg HSCW) for continuous variables in the MSA pricing model, with and without saleable meat yield as a covariate .................................................................................................................................................. 62

Table 5.5: Elasticities of continuous variables in the MSA pricing model including saleable meat yield percentage ........................................................................................................................................................................ 75
LIST OF FIGURES

Figure 2.1: Finding the zone of strategic fit ................................................................. 19
Figure 2.2: Value chain decision-making framework .................................................... 20
Figure 2.3: Inventory database screen snapshot showing primal description, check field, label information, weight of primal, seven cooking method (GRL – grill; RST – roast; SFR – stir-fry; THS – thin-sliced; SC1 – slow cook for one hour; SC2 – slow cook for two hours; CRN – corned). Aged: days aged since kill date; Batch: batch assigned when taken from inventory for further processing and invoiced; Status: eating quality scores calculated daily using individual cut ageing coefficients. ....... 22
Figure 2.4: Polkinghorne’s value chain characterisation ................................................. 24
Figure 3.1: Distribution of carcase weight for each suspension method (achilles tendon and tenderstretch) ......................................................................................... 36
Figure 3.2: The average hot standard carcase weight (HSCW) for estimated percentage Bos indicus groups (0% and 18.5%). ................................................................................................. 36
Figure 3.3: Distribution of ossification scores within the dataset (n=1,237) ....................... 37
Figure 3.4: Distribution of marbling scores (US) ............................................................... 37
Figure 3.5: The percentage of carcases boned per day post kill date (boning interval) ........ 40
Figure 4.1: Predicted mean values in $/kg hot standard carcase weight for each of the 114 kill dates during the 1450 Julian day time range. Predicted means adjusted for gender as a fixed effect and saleable meat yield percentage as a covariate. ................................................................. 49
Figure 4.2: Predicted mean value of gender in $/kg hot standard carcase weight adjusted for fixed effects (boning stratification group, supplier, estimated percentage of Bos indicus, boning interval) and covariates (saleable meat yield percentage, linear and curvilinear effects for Julian kill day). .................................................................................................................. 50
Figure 4.3: Predicted mean value of estimated percentage Bos indicus (EPBI) in $/kg hot standard carcase weight adjusted for fixed effects (gender, boning stratification group, supplier, boning interval) and covariates (saleable meat yield percentage, linear and curvilinear effects for Julian kill day). ................................................................................................. 50
Figure 4.4: Predicted mean value of suppliers in $/kg hot standard carcase weight adjusted for fixed effects (gender, boning stratification group, estimated percentage of Bos indicus, boning interval) and covariates (saleable meat yield percentage, linear and curvilinear effects for Julian kill day). .................................................................................................................. 50
Figure 4.5: Predicted value means in $/kg hot standard carcase weight for boning interval (days) adjusted for fixed effects (gender, boning stratification group, supplier, estimated percentage of Bos indicus) and covariates (saleable meat yield percentage, linear and curvilinear effects for Julian kill day) with trend-line .................................................................................................................. 51
Figure 4.6: Predicted mean values in $/kg hot standard carcase weight for boning stratification groups adjusted for fixed effects (gender, supplier, estimated percentage of Bos indicus, boning interval) and covariates (saleable meat yield percentage, linear and curvilinear effects for Julian kill day). .................................................................................................................. 52
Figure 5.1: Predicted means ($/kg HSCW) for boning interval using the conventional pricing model, showing standard errors, with and without saleable meat yield as a covariate. 64

Figure 5.2: Predicted means ($/kg HSCW) for suppliers using conventional pricing without saleable meat yield as a covariate. 65

Figure 5.3: Predicted means ($/kg HSCW) for suppliers in the MSA pricing model without saleable meat yield as a covariate. 65

Figure 5.4: Predicted means ($/kg HSCW) for boning stratification group using the conventional pricing model with and without saleable meat yield as a covariate. 67

Figure 5.5: Predicted means ($/kg HSCW) for boning stratification groups of the MSA pricing model including saleable meat yield as a covariate. 68

Figure 5.6: Predicted means ($/kg HSCW) of gender in the conventional pricing model including saleable meat yield. 69

Figure 5.7: Predicted means ($/kg HSCW) for gender using the MSA pricing model including saleable meat yield. 70

Figure 5.8: The predicted means ($/kg HSCW) for estimated percentage Bos indicus in the conventional model including saleable meat yield as a covariate. 71

Figure 5.9: Predicted means ($/kg HSCW) for estimated % Bos indicus in the MSA pricing model with saleable meat yield as a covariate. 71

Figure 5.10: Predicted means ($/kg HSCW) for carcase suspension (Hang method) – Achilles tendon (AT) and tenderstretch (TX), using the MSA pricing model, with and without saleable meat yield as a covariate. 74

Figure 5.11: Range of value impact ($/kg HSCW) across one standard deviation from the mean of continuous variables (excluding Julian kill day) in the MSA pricing model including saleable meat yield percentage as a covariate. 75

Figure 6.1: Coefficients and predicted mean differences for terms within the conventional and MSA pricing methodologies, each with and without saleable meat yield percentage (SMY%) in their model. 82