Successful Strategies of European Pork Slaughter and Processing Companies

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Introduction

A successful strategy is closely related to the company it has been outlined for. This means, that what could be a good strategy for one company may not work as well for another company. Issues within companies such as supply chain structures, product mix, technologies, costs, management, marketing strategies and, company history and organization all have a strong impact on strategy. External issues such as competition, market development trends, changes in supply or demand will also impact a pork company severely. Therefore, a successful strategy must be developed and implemented according to the company in question. Furthermore, a strategy resulting in success may target the company’s full value chain or only parts of the value chain like pig production or sales of processed products. This paper will provide an overview of the situation in the European pork industry and give examples of successful strategies implemented by European pork companies.

The European Pork Industry

The meat industry is the largest subsector in the European food industry, and the pork industry is the most important subsector of the meat industry measured by turnover, export shares, slaughtering and companies’ sizes and internationalization.

Pig slaughtering in the EU-27 has decreased from 254.34 million pigs in 2008 to 248.63 million heads in 2010. This is a drop of 2.2%. The German pork industry has increased pig slaughtering by 5% from 2008 to 2010, and in UK, pig slaughtering has increased by 6%. On the contrary, pig slaughtering in...
East European countries like Czech Republic, Bulgaria, Latvia and others have declined by 3-10% within the period considered (Brown, 2009). Figure 1 shows the market shares of pork slaughtering among EU countries.

**Figure 1. Market shares for pork slaughtering, in per cent, 2009**

During the last 5 years consolidation among pork companies in Europe has been very intense. By 2009, the 10 largest pork companies had a market share of 31% (of slaughtering), an increase from 27% by the 2005 (Harris, 2007). Industry experts anticipate that the European pork industry will be facing a new wave of particularly cross-border mergers and acquisitions in the next years. This is because the financial situations of some of the largest companies have improved after the last years of cost cutting and restructuring, and there is an improved access to financing for growth.

### Drivers shaping the European Pork Industry

Costs are claimed to be the most important parameter in the competitive situation among European pork companies. Hence, the companies are very focused on cutting costs through supply chain control, marketing strategies, and increasing productivity in the plants.

Access to raw materials (hogs) at a competitive price is regarded as one of the most crucial parameters to control. The pork companies in Europe source the hogs through different supply chain structures. Danish Crown is a cooperative and as such has access to hogs from the owners of the company
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The largest company in Europe, the German-Dutch company Vion Food Group, is a privately owned company. This company sources hogs from contracted farmers, vertically integrated structures for the British plants, and from imported live hogs from Denmark and the Netherlands.

There seems to be a trend for a growing international trade with live pigs in Europe. When markets are accessible for hog exporters from e.g. Denmark or the Netherlands, the farmers may ship the hogs to the higher-priced markets in Germany. Prices on hogs in the Polish market may even exceed the prices in Germany. Hence, German, Dutch and Danish farmers export live hogs to Poland. Obviously, this market situation has an impact on the pork industry. For Danish Crown, differences in hog prices between the Danish and German market meant a loss of approx. 1 million hogs for slaughter in 2009. Figure 2 shows Danish total exports of live pigs.

Figure 2. Danish exports of live pigs, in million heads

The consumer market in Europe is dominated by large retail chains. For comparison, Wal Mart – the world’s largest retailer, has a turnover of more than twice that of the largest European chain Carrefour. In a European view, the largest retailers are French, German and British companies. The German food market is significantly driven by the discount chains such as Aldi and Lidl, holding approx. 25% of food sales.
Company Strategies

Companies in Germany

The largest European pork company is Vion Food Group headquartered in the Netherlands. The company has production plants in the Netherlands, Germany and the United Kingdom. In 2005, the company’s export share was 30%, but by 2009 this had increased to 35%. Vion Food’s strategy may be formulated as “Not about more but about better”. This means that the company will keep on improving production efficiency, develop new products and emphasize customer intimacy. In order to fulfill this, Vion Food establishes market positions by presenting volume, and setting up sales offices in emerging markets such as East Europe and China. The company also has a joint-venture with the Russian meat processing company Ramfood for accessing the Russian market, particularly the Moscow-region.

The German company Tönnies has had impressive growth rates in the numbers of pigs slaughtered. In 2009, the company slaughtered and processed 12 million pigs compared with 10 million pigs in 2008. No other German meat company has shown this kind of expansion. Industry sources claim that the most important success factors for the Tönnies company are:

- Extreme focus on cost reductions
- A state-of-the-art plant with a high degree of automation
- Focus on food safety and certifications
- Increasing export activities
- A new modern pork slaughterhouse in South Russia under construction.

Companies in Northern Europe

In Northern Europe, the pork industry has for many years been ruled by domestic companies. This structure would imply that there were only a few pork companies in each country, and some of the companies would have an export strategy. This is case for the Danish companies Tican and Danish Crown. Both have export shares of 85-90% (www.danishcrown.dk and www.tican.dk).

In order to reduce costs and improve competitiveness, the second largest pork company in Europe, Danish Crown, built a slaughterhouse in 2008 equipped with state-of-the-art technologies including robots and automation. Technology for the plant has been developed in cooperation with the Danish Meat Research Institute, which has strong expertise with robotics and processing equipment. In 2009, Danish Crown implemented a new strategy called DC Future. The objective of this strategy was to gain at least 130 million EUR
from improved competitive power. The DC Future strategy included issues such as closure of 2 plants in Denmark, reduction of wages by 20%, and moving some production to Germany. Results were visible already after the first 12 months.

Germany is the most important single export market for Danish Crown; this market accounts for 25% of total exports. Following the success of the DC Future strategy and the increasing market pressure from German retailers, it seemed obvious to establish even more production in Germany. In October 2010, Danish Crown announced an agreement to acquire the 4th largest pork processor in Germany, the company D&S Fleisch. This is a privately owned company. The annual production volume is 3.5 million hogs for the German market and for exports to EU, USA and other markets.

The Swedish and Finnish pork industries were to a much higher degree targeting the domestic markets. In the late 1990’s the largest Finnish company HK Ruokatalo started acquiring market leading meat companies in the Baltic countries. The acquisitions turned HK Ruokatalo into a multi-species processor: beef, pork, poultry and processed meat products. Later, in 2004, a joint-venture was established with Danish Crown for acquisition of the largest processed meat producer in Poland: Sokolow. In 2007, the HK Ruokatalo acquired the largest pork company in Sweden: Scan, with production plants in Sweden and Poland. The name of the merged companies was changed to HK Scan. In September 2010, HK Scan has offered to acquire the largest Danish poultry processing company Rose Poultry. If this acquisition is approved by authorities, HK Scan will become a major company within poultry processing in Scandinavia as well as the Baltic countries. (www.hkscan.com).

Technology, Innovation and Research

In Europe, there is a strong interest in emerging technologies with potential applications in the meat industry. Emerging technologies are defined as such technologies that are only recently implemented in industry – or maybe the technology has not yet left the research facility. Examples of emerging technologies for the meat industry includes: natural antioxidants incorporated in films for case-ready meat, new cultures for maintaining the red color of sliced meat, and high-pressure cold pasteurization for sliced meat. Other researched themes encompass prolonged shelf-life, better nutritional profiles of the products, ingredients, and new processing and packaging technologies.

A new technology with applications in the red meat industry was introduced by the Danish company Chr. Hansen in 2009. The technology is a culture named Bactoferm Rubis and functions by removing oxygen in case-ready meat and sliced meat products. When the culture is applied the product maintains the
“red meat” color for a longer time and the formation of off-flavors is prevented. Chr. Hansen claims that the product matches consumer demands for naturally appealing food and the product’s freshness. For the pork industry application of the culture is very easy and can be done with no changes in existing production lines. (www.chr-hansen.com).

In order to stay competitive, European pork companies focus strongly on innovation. For companies, innovation may be: a new business strategy, a new product, a new technology, or changes in operations. Hence, innovation may be derived from present products or technologies within the company, or may be developed outside the company or industry.

Innovation in products is typically driven by changing consumer demands. In Europe, consumers are very focused on quality, health and natural products. If new products also match consumers’ demands for convenience, then the new product may have a chance to become a market success. Consumer preferences differ across Europe and it does not make sense to speak of a single European consumer. This is certainly the case when it comes to processed meat products.

In general, consumers in Spain, France and Italy strongly favor traditional dried meat like the Iberian ham or Parma ham. In East European countries there is a very profound tradition for sausages. Such preferences may vary strongly from one country to another, and even within regions there are clear preferences. In Northern European countries such as Belgium, Netherlands and the Scandinavian countries, consumers demand natural products, organic products, and pork produced with much attention to animal welfare. Northern European consumers also demand local sausages and meat patés.

The above mentioned findings prove that in the development process for a new processed meat product the consumer preferences in the particular market must be taken seriously into consideration. Vion Food has a Dutch subsidiary (the company Oerlemands Foods) that process vegetables. In 2007, Oerlemans Foods presented a new brand: Vegetaria. This product range is a vegetarian alternative to sausages, burgers, lasagna and similar convenience food. The brand targets consumers in Germany and the Netherlands. In 2009, the brand had increased sales by 20% over 1 year.

Denmark has for many years been producing canned ham and cooked sliced ham. There was no tradition for producing a high quality dried ham. The small pork company Tican took up this challenge in 2006. The aim was to develop a process that could produce a ham similar to Parma-style ham. The development process took 1 year and the first 50 hams were tested in 2007. It was a success. For the first time in history a Danish pork company had produced a delicatessen dried ham. The annual production is around 200 hams that are sold to gourmet restaurants and premium food stores. This way,
Tican underlines the product’s exclusivity. The ham, called “Chamber Ham” has won several prizes in Danish food contests. (www.tican.dk)

The European Commission funds large, cross-border research projects such as the project Q-Pork Chains. This project runs from 2007-2011 with a total budget of 20 million EUR. The project counts 69 participants from 16 countries including EU-countries, Brazil, USA, China and South Africa. Participants include research institutions, pork companies, farmers, organizations and other stakeholders such as certification bodies. The aim of the project is to develop high quality pork products in sustainable systems with low environmental impact. In order to strengthen the dialogue with industry the project has established a Business Network. Results are disseminated to industry through this network, internet platforms and conferences.

The Q-Pork Chains project is divided into several modules focusing on: pig production systems, processing technologies for industry, product development, or consumer preferences. Several companies (small, medium-sized and large ones) and research facilities are involved in each module. An example is the module Product Development. Here, 2 Spanish pork processing companies are participating with their processing lines and internal expertise. The companies work together with the researchers. This is a cooperation model of mutual benefit to industry and academics. The Spanish companies are both medium-sized enterprises specialized in traditional Spanish pork products. Each company hopes to gain more technological insight, as well as new or improved products. (www.q-porkchains.org)

- **Summary**

The European pork industry is a dynamic industry where competitive power is the key word. Consolidation has been very strong, and there seems to be more of this on its way in the next years. Industry experts claim that cross-border consolidation will be the key word, as companies operate more internationally. This includes their supply chains, markets and production structures. There is also a trend for pork companies to diversify into new product areas such as poultry and vegetarian food. In this light, innovation will be crucial to maintain competitive power in the future pork industry. Strengthening the cooperation between research facilities and companies will also be a very important issue for improving innovation in products and technologies.
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