US Natural Beef Executive Summary Report – January 2007

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The U.S. "natural" beef category represents approximately 1% of the total U.S. beef market (sales of approximately $500-$550 million annually). Although a comparatively small market, sales in this niche category have been growing at approximately 20 percent annually, with even higher growth at the major food, drug and mass store channel (approximately 51% annual growth for the period ending March 25, 2006). The BSE scare, *E. coli* concerns and general healthy eating trends are all factors contributing to the high growth in this category as consumers associate "natural" meat with higher safety standards and a healthier eating option.

The U.S. natural beef marketplace may be characterized by heavy competition. Most major players in the segment are established companies with high levels of vertical integration. The most recognized brands in the category include Coleman Natural Meats, Laura's Lean Meats, and Maverick. These companies have established distribution and sales channels and recognizable brands with specific unique selling features.

The USDA's current definition for "natural" meat prohibits artificial ingredients or added colour and requires that the meat be only minimally processed. As a result of this lenient definition, most players in the market exceed the USDA's "natural" labelling regulations and market specific "natural" product attributes such as *hormone free*, *antibiotic free* or *humane handling*. The definition may see changes in 2007 however; as Hormel Foods has recently appealed the current definition to become more restrictive. This is an important consideration that will affect all supply chain partners as labelling regulations greatly affect the integrity of the category.

Consultations with retailers suggest that the natural category needs to be supported with educational programs as there is much confusion regarding the category and the closely competing organic category. Retailers require branded programs that can deliver on consistent quality and supply. The current premium of the natural beef category is being maintained but as competition increases, pricing premiums may be reduced and likely, those marketers with strong consumer appeal will maintain market share.

In summary, the U.S. natural beef market provides a growing niche opportunity to Canadian beef packers looking to export. Impending labelling requirements may be a significant barrier to entry however; several Canadian natural beef marketers have been successful promoting "characteristics" of natural beef in Canada and therefore are well positioned to gain access into U.S. markets. It is advised that if a new brand is introduced to the category, extensive consumer research be executed during the brand development stage. This will assist in creating a "natural" brand with attractive and meaningful attributes for this marketplace.