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CENSUS HIGHLIGHTS THE IMPORTANCE OF MAXIMISING BEEF PRODUCTION FROM THE DAIRY HERD

THE preliminary results of the DARD Agricultural Census for June 2014 provide an indicator of the ongoing challenge that lies ahead for the NI beef sector. The census shows that the beef cow herd has contracted by five per cent to 257,000 cows since last year. The dairy herd, in contrast, has expanded by five per cent to 292,000 cows.

Between 2009 and 2012 there had been gradual growth in the beef herd. However, this growth has been cancelled out by the recent contraction in the beef herd with a high rate of cow culling and fewer heifers being retained for replacements.

Tough market conditions, high input costs and uncertainty associated with CAP reform will have been key factors in leading beef farmers to question the viability of suckler cow enterprises. Moreover, fertility issues in recent years will have led to a higher than expected culling rate.

It has been forecast for some time, that the beef industry would become more reliant on the dairy herd for raw material. The June census provides further evidence of this trend.

The dairy herd has always been recognised as an important source of beef cattle. During 2014 to date for example, 33 per cent of price reported prime cattle were sourced from the dairy herd with the dairy herd also acting as an important source of replacement heifers for the suckler herd.

Historically of course, there was a much more synergistic relationship between beef and dairy farming. In the past, small farmers, using dual breeds, effectively produced beef and milk from the same herd.

However, the drive for efficiency in both sectors and changing customer requirements led to a greater degree of specialisation, perhaps at the expense of a more synergistic relationship.

Of course this drive for efficiency is a very rational choice, driven by economics. However, there are some very real challenges facing both sectors.

There have been ongoing reports from the trade, about increased culling of black and white male calves in 2014. This is a waste issue that could be resolved, particularly given the current price volatility in the dairy market.

Meanwhile, beef farmers and processors are facing shortages in raw material. It is quite clear that the dairy industry already provides significant volumes into the beef sector. The question is whether this relationship between the beef and dairy industry is currently optimised.

Whether through the sales of beef-sired heifers to primary beef producers for breeding, young stock to beef rearers/finishers, or through sales of finished cattle and cull cows, dairy producers have important commercial links with the beef industry and an essential role to play. These are obviously mutually beneficial and help deliver on the potential of beef from the dairy herd.

It is worth asking however whether the dairy industry could deliver greater volumes to the beef industry without compromising the efficiency of milk production. The ongoing production of lower value, and in some cases, unwanted dairy bull calves, is a sign that there is room for further development of these commercial relationships.

Given the advances in sexed semen it is likely that improvement is possible. While there have been concerns expressed over the consistency of this technology, there have been reports that sexed semen is becoming more effective.

This technology, coupled with effective genetic evaluation services, is helping to improve the quality of male calves being produced by the dairy herd.

With tighter supplies, it is clear that the beef industry will need to examine how it can develop a more symbiotic relationship with the dairy industry, so that it receives exactly the type of raw material required to meet customer orders. The beef industry must lead these developments through appropriate price signals and the ongoing nurturing of commercial relationships.

With the availability of data in Bovis and APHIS, the NI livestock industry has a good basis for developing systems and structures that encourage the type of commercial relationships that would help deliver more in-spec cattle from the dairy herd.

There are of course some obstacles for dairy farmers in developing even more productive relationships with the beef industry. TB is one such issue. Closed dairy herds will obviously be prevented from selling off cattle. If such producers are not inclined, or do not have the facilities, to finish beef cattle, this is likely to be an impediment to any growth in beef production from the dairy herd.

Nonetheless, at a general level, the declining beef herd does present a significant opportunity for the dairy sector. With tighter supplies coming from the beef herd, the dairy industry can meet the growing requirements of the beef farmers and processors.

Ultimately this will mainly be driven by the market, and with the right price signals and market conditions, there is potential for positive developments in this area in the coming years.

MAXIMISING BEEF PRODUCT

LACK of confidence in the suckler beef sector due to difficult market conditions, high costs of production and the relatively high cull cow price will have done little to incentivise growth in the suckler beef sector in the last year.

While the number of beef sired heifers on NI farms was similar to year earlier levels during July there was a notable increase in the number of dairy origin heifers. In July 2014 there were 89,016 dairy bred heifers on NI farms ages 24-36 months compared to 80,993 heifers in July 2013. This accounts for a 10 per cent increase year on year.

This growth in dairy heifer numbers can be attributed to investment and expansion in the dairy sector in recent years in response to favourable market conditions. There have also been reports of some larger beef producers moving into dairy production as margins in beef production have come under pressure.

Whilst volatility in milk prices can create significant challenges to dairy farmers, the attraction of regular cash flow from milk sales is enticing for some farmers who have buildings and land suitable to dairying enterprises, and are prepared to make the investment and commit to the lifestyle of dairy production.

Growth in the dairy herd combined with lower suckler cow numbers means that dairy origin beef has the potential to account for a larger proportion of the NI cattle kill in the years ahead. This has the potential to bring both challenges and opportunities to both suckler and dairy producers.

There is also an opportunity for dairy farmers to breed replacements for the NI suckler herd. In June 2014 there were 257,000 suckler cows on NI farms and assuming a replacement rate of 24 per cent annually 562,000 heifers need to be entering the suckler herd each year just to maintain these numbers. If a larger proportion of these were sourced from the dairy herd it would encourage an increase in beef output from the suckler herd due to the lower requirement for heifer retention.

In addition a dairy cross suckler cow can deliver higher milk yields which have been linked in several studies to heavier calves at weaning and thus contributing to improved profitability at farm level.

With more dairy cows on NI farms and improvements in the use of sexed semen an increasing number of dairy cows could be bred to beef bred bulls in the future. The increased use of high quality beef bulls on dairy cows has the potential to increase the value of the beef cross calves produced and thereby improve the bottom line for dairy producers, while in turn benefitting beef producers by supplying higher quality calves to meet their needs. For this system to work successfully good supply chain relationships are important.

Some beef finishers have a preference towards working with suckler origin cattle due to the better conformation and carcase weights at point of slaughter and thus the higher the end value of the animal. However while beef sired calves from the dairy herd tend to produce carcases with poorer conformation scores analysis has shown they can still meet the current in spec requirements of the NI processors in terms of weight as indicated in Figure 1.

Image 1: Increased sourcing of suckler cow replacements from the dairy herd will increase suckler herd outputs.

With the expected growth in the number of beef sired calves coming from the dairy herd in the future the key factor for producers is the profitability of the beef enterprise at farm level. It is important to remember that the higher value animal at point of slaughter is not necessarily the most profitable for the producer.

In recent times major processors in NI have encouraged the production of cattle with carcase weights within the 280-380kg weight range. From January to July 2014 70 per cent of the beef sired steers and heifers sourced from the dairy herd fulfilled this requirement, marginally higher than suckler origin cattle during the same period when where 69 per cent met the criteria.

Figure 1 outlines the breakdown of beef sired steers and heifers sourced from the dairy and suckler herds by carcase weight. As indicated in the chart 22 per cent of beef cattle of dairy origin were slaughtered at carcase weights lower than the desired 280-380kg carcase weight while 8 per cent were higher than the desired weight range.

Meanwhile suckler origin cattle were more likely to be slaughtered at carcase weights over 380kg, the upper end of the desirable range. From January to July 2014 21 per cent of suckler origin carcases were over 380kg while 10 per cent of carcases below the desired weight range.

While a large proportion of beef cattle sourced from the dairy herd meet current carcase weight requirements getting the cattle inside the current specification for grade is more challenging with about two thirds of beef sired steers and heifers with a dairy dam meeting the conformation requirement of O+ or better during January - July 2014. This compares to 95 per cent of beef sired cattle with a suckler dam meeting this requirement.

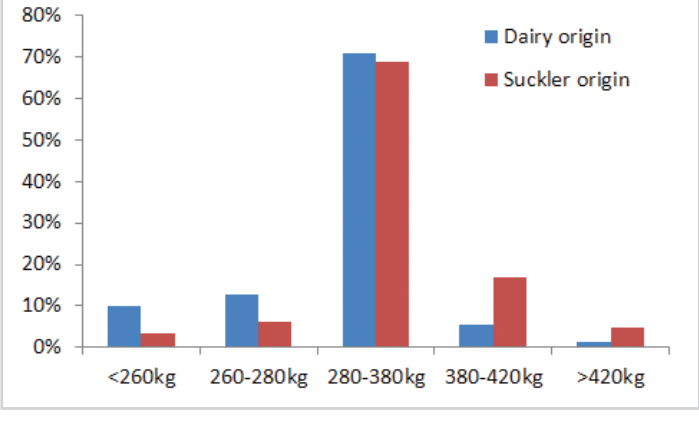
Table 1 outlines the proportion of beef sired steers and heifers sourced from the dairy herd by breed during July 2014. It is worth noting that 45 per cent of the beef cattle sourced from the dairy herd were Aberdeen Angus (AA) or Hereford sired which is advantageous to the dairy producer due to shorter gestation and less calving difficulties as a result of lower birth weights.

However AA and Hereford cross prime cattle sourced from the dairy herd are typically O grading animals and are therefore more likely to be outside the standard specification for the NI plants at point of slaughter. Figure 2 outlines the conformation scores of AA cattle sourced from both the dairy and suckler herds during July 2014.

During Jan-July 2014 around 80 per cent of dairy origin Aberdeen Angus and Hereford steers and heifers slaughtered were O grade animals.

The bonuses currently being paid for these cattle breeds at point of slaughter by the majority of the major processors in NI helps to offset the lower carcase weights and poorer conformation at point of

Figure 1: Percentage of beef sired steers and heifers sourced from the Dairy and Suckler herds by carcase weight category during Jan-July 2014



CTION FROM THE DAIRY HERD

slaughter when compared to continental sired calves sourced from the dairy herd.

As you would expect Limousin sired cattle sourced from the dairy herd tend to grade much better than the Aberdeen Angus or Hereford cross cattle.

Figure 3 outlines that during 2014 to date 78 per cent of Limousin sired dairy origin cattle achieved a conformation of O+ or better (blue line) and meet current specification requirements for grade. This shows that with the right genetics and production conditions a large proportion of these Limousin cross cattle can meet current in spec requirements for grade.

The focus of NI beef producers should be the production of prime cattle that are able to reach ideal slaughter weights in the shortest possible time and for the lowest possible cost. Maintaining animal performance and maximising carcase gain from grass and high quality grass silage should be key aims of all beef finishing systems.

With the expected increase in beef sired cattle from the dairy herd this is one area that may need some attention. It is likely that small changes to dairy beef production systems at farm level can help to maximise liveweight gain, reduce costs of production and help reduce the age of slaughter.

The NI beef industry is fortunate in relation to other regions of the UK in that it has access to a free bench-marking scheme through Axis 1 of the Rural Development Programme. The data from the benchmarking scheme is analysed by CAFRE who in turn offer advice to participating producers in managing their production costs and to utilise this information to shape future business decisions. However in reality many producers in NI do not measure their current cost of production.

Participation in the benchmarking process allows producers to compare their business against others of a similar type and size in terms of costs of production, levels of output and ultimately profitability. Having access to this information is vital to allow beef production to become more competitive and sustainable in the future.

Image 2: Increasing numbers of beef sired calves from the dairy herd are expected as the NI dairy herd grows.

The adoption of efficient dairy calf to beef systems could play a vital role in the future of the NI beef industry and will complement the suckler cow systems in place and help to maximise beef production. Improved co-operation at all levels of the supply chain and partnerships will be important if this is to be achieved.

For example a beef producer working in partnership with a dairy producer can have some influence over the quality of the calves produced while the dairy producer has a sure market for their calves.

One key benefit of this system is on the health of the dairy origin calf. By knowing the origin of the calf they are purchasing beef producers can be more certain of the health status of the animals they are buying. This will help reduce calf mortality, one of the major issues in dairy calf to beef systems, and also help protect the health status of the buyer's herd.

With the proportion of beef sired dairy origin beef expected to increase in the future it is important that the NI beef industry adapts and changes to ensure it continues to produce top quality beef within the specification required by customers.

Table 1: Beef sired cattle from the dairy herd - Proportion by breed slaughtered Jan-July 2014

Breed of sire	Proportion by breed
Aberdeen Angus	36%
Limousin	24%
Belgian Blue	14%
Hereford	9%
Simmental	4%
Charolais	4%

Figure 2: Conformation of Aberdeen Angus sired steers and heifers sourced from the suckler and dairy herd, slaughtered Jan-July 2014

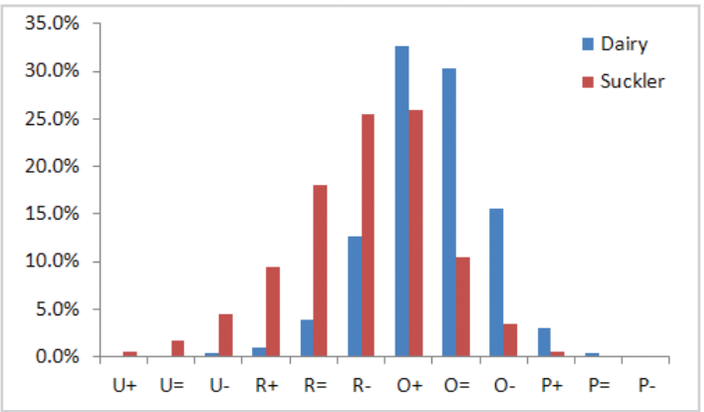
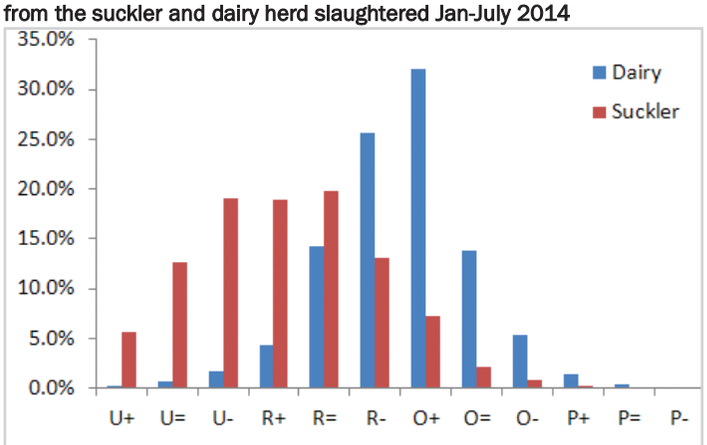


Figure 2: Conformation of Limousin sired steers and heifers sourced from the suckler and dairy herd slaughtered Jan-July 2014



RETAIL MARKET DEVELOPMENTS

THE UK grocery market is presently in the midst of significant change and evolving customer preferences are helping to shape the retail landscape.

A recent study by IGD Retail Analysis has predicted the UK grocery market to be worth £203 billion by 2019. This estimate accounts for a 16.3 per cent growth in the value of grocery market sales over the next five years, although this is markedly lower than the 19.5 per cent increase recorded during the 2009-14 period.

As the UK has moved out of recession cost remains the most important factor for UK shoppers. However, the recent IDG research has indicated a drop in the number of shoppers saying how much they spend is paramount (61 per cent to 57 per cent) with more consumers focusing on the quality of the produce (32 per cent to 35 per cent) during June 2014.

More people are shopping across more channels than ever before according to IGD. The most popular channels remain supermarkets and convenience stores. However, grocery discounters, frozen food specialists, hypermarkets and online shopping are, of course, popular alternatives.

The rise of discounters, convenience outlets and online shopping have been prevalent themes over the course of recent years with their expansion driven by shoppers' increasing preference for value, to shop little and often and the increasing accessibility of the Internet.

Grocery sales through discounters and online are forecast to grow by £31.3 billion over the next five years according to IDG. The continuing emergence of these trends could potentially impact on suppliers into the UK grocery sector, including the Northern Ireland red meat industry.

Growth of the Discounters

One of the major trends over the last year has been the rising prominence of discounters in the overall grocery market. Discount stores were the fastest growing grocery retail channel for the third year running in 2014 with sales expected to double over the next five years.

Aldi and Lidl's share of total grocery sales has risen significantly in recent years. In the 12 weeks ending 20 July 2014, Aldi's market share had reached 4.8 per cent while Lidl's market share was 3.6 per cent. This puts the combined market share of these hard discounters at 8.6 per cent.

Discount stores are traditionally small, with no frills and with a limited product range. In this way they can limit overhead costs and this helps contribute towards a low pricing strategy. The economic downturn, which started in 2008, made most consumers more price conscious and some commentators are suggesting that even as the economy emerges further from recession, affluent consumers will remain loyal to discounters.

In contrast to the discounters, major retailers such as Tesco, Morrison's, Iceland and the Co-op have recorded a decline in market share in recent times. These major multiples have struggled to grow sales despite recent improvements in the economic situation.

Tesco grocery sales fell by almost four per cent and its market share fell to 28.9 per cent from 30.3 per cent in the same period last year. Grocery sales through superstores and hyperstores are expected to record a £3 billion decline by 2019 as shopping' habits evolve.

One school of thought has been that so-called "repertoire shoppers" will use discount outlets to purchase staples such as pasta and beans, while using premium retailers, bakeries or butchers to purchase bread or meat, where tastes may be more discerning.

However, while discounters have maintained their reputation for low prices, more recently they have also gained a reputation for investing in the quality of their product range and this has allowed them to attract new customers.

Discounters started to appear in NI in the late 1990's and at first were subject to protests from farmers at the lack of local produce on the shelves. Over the years such retailers have responded to these issues and now in the fresh meat category there is a strong focus on local produce.

This was quite evident in the advertising campaigns of certain discounters in Northern Ireland in the last year. By investing in quality, discounters are managing to increase their share of middle class customers. For example, it has been reported that Aldi's proportion of shoppers in the AB social category (middle class) has risen from 12 per cent in 2012, to 19 per cent this year.

It is expected that discounters' sales will double over the next five years and by 2019 it is forecast that they will take 10.5 per cent market share. That may be a conservative estimate. Convenience store sales are also expected to rise sharply ahead of average growth in the sector, with sales forecast to reach £49bn by 2019, an increase of 31 per cent.

With a focus firmly on low prices and own labels, the growth of the discounters in terms of market share could be perceived by some to be a wholly negative development for the NI red meat industry.

However, from a supplier perspective, it may not be quite as clear cut. It has been reported that discounters typically drive a hard bargain in initial negotiations, relative to traditional grocers. But this is perhaps offset by reports that the accounts of discounters are easier to service. Constant lower prices may mean order patterns are more consistent with less demand placed on suppliers to support promotions. With a narrower product range, the account should be less expensive and easier to manage compared to larger multiples who may be more demanding with regards to account management and promotions.

Online Shopping Growth

The other major growth area between now and 2019 is expected to be online shopping. Retailers have been developing "click and collect" services and reduced delivery charges have been offered in conjunction with uptake of loyalty schemes. The phenomenon of "dark stores", which cater to meet online orders only, is also rising.

The suitability of fresh food, and meat in particular, to online sales is questionable. According to IGD, there is a strong preference for buying fresh food in-store compared to online. Kantar Worldpanel have reported that online sales of fresh meat accounted for just five per cent of total market sales in the year to June 2014. However, in terms of online red meat sales, mince volumes are the strongest, possibly because of its more consistent presentation.

Summary

The developments in the retail sector will generate challenges and opportunities for the NI red meat industry. It will become increasingly important for suppliers to consider the needs of customers that operate across multiple channels (e.g. hypermarket, convenience, online etc). It will also be important for the red meat industry to develop strong mutually beneficial relationships with discounters, so that as that channel grows, the industry benefits and grows with it.

Figure 4: UK Retail Market, Discounters Sector Forecast 2009-2019. Source : IDG Retail Analysis