

Feathering the (local) poultry nest

Higher import tariffs have been a double-edged sword in the South African poultry market for some years now. While local chicken suppliers have been under pressure from cheap imports flooding the local market, cash-strapped consumers have had access to cheaper poultry products. The argument that these products are inferior, or bulked up with brine, or dumped on the SA market, held little merit with budget-restrained consumers who only saw more chicken for less cash outlay at the till.

Now that there has been a tariff increase, the local market is set to change – and there has been – predictably – mixed reactions. Some producers say there will be a negative impact on lower income consumers, while others believe it will boost the local economy and create jobs.

Some background

The poultry import tariff increase, which was published in the Government Gazette on 13 March 2020, has been long-awaited by local suppliers. It sees the tariff on frozen bone-in chicken portions increase from 37% to 62%; and from 12% to 42% on frozen boneless chicken cuts.



Keeping it local during Covid-19 and beyond

Local poultry consumption

The poultry sector is the single largest contributor to the gross value of agricultural production in South Africa and – in ‘normal times’ – also provides the most affordable and preferred source of animal protein to South African consumers.

The broiler industry contributes around ZAR 56 billion annually, which equals roughly 17% of the total gross value of agricultural products.

Over the past decade, chicken consumption has also grown faster than any other meat type in South Africa. South Africa consumes about 3.9 million tonnes of poultry, beef, lamb and pork per annum. In 2018, the South African consumer spent approximately ZAR 285 billion on meat products (35% of total food expenditure) with poultry meat representing more than 60% of this.

However, for the last three years the poultry industry has been plagued by numerous difficulties, including the cost of feed and barriers to exports, as well as rising imports, mainly of bone-in chicken portions from Brazil, the EU and the US.

“Local [chicken] producers supply about 70% of consumption in South Africa, and the new tariffs will apply to over 30% of all imported chicken.

The reaction from exporting countries may very well negate the desired impact of these tariffs, should [these countries] merely re-price surplus products. Only time will tell if the new tariffs work as intended,” said Izaak Breitenbach, General Manager of the South African Poultry Association’s (SAPA) Broiler Organisation.

A curved ball

As the revised import tariffs came into play, another gamechanger was making its presence felt. The Covid-19 pandemic resulted in a full lockdown for South Africa only weeks after the import tariff increase was announced. Restaurants and takeaways having to close resulted in an excess of chicken in the local market, leading to a drop in local pricing. So, the playing field has, in a strange turn of events, been levelled.

Is there still a case for imports?

Historically, South Africa has imported a range of different chicken products, for various reasons. The largest contributors to total imports are mechanically deboned meat (MDM) and bone-in portions. Bone-in portions compete directly with individually quick frozen (IQF) portions – which account for the bulk of South Africa’s market. On the other hand, MDM is an input into various processed meat products that are not currently manufactured in South Africa. It is imported very cheaply and results from a mechanical process that removes the last meat from an eviscerated carcass. South Africa has a direct market for these carcasses, either as a carcass directly, or as an input into soup packs. As argued by Cliff Johnston, vice-chairperson of SANCU (South African National Consumer Union), these imports play a critical role in keeping local chicken prices in check, and thereby benefiting consumers. Consequently – and pre-Covid-19 – MDM imports were the most likely to survive the tariff increases. However, this scenario

“Higher import tariffs have been a double-edged sword in the South African poultry market for some years now. While local chicken suppliers have been under pressure from cheap imports flooding the local market, cash-strapped consumers have had access to cheaper poultry products.”



may no longer play out, with market forces now favouring the growth of a more self-sufficient and diversified local industry.

Growing the local poultry industry

The development of master plans in the poultry sector are part of a series being developed across priority industries, as components of President Cyril Ramaphosa’s industrial strategy for South Africa. We can only expect this approach to intensify, the longer the country has to deal with the Covid-19 pandemic.

The latest of these, and the most comprehensive, is the recently gazetted (13 March 2020) master plan following a long period of consultation between various industry stakeholders, facilitated by the Department of Trade and Industry (DTI).

As Trade and Industry minister, Ebrahim Patel has said, “We need to find a road to a more competitive, inclusive industry employing more South Africans.”

The tariff increases are one of various initiatives which have been undertaken to put it on a more sustainable path.



offer a fresh modern approach to plastic packaging

plastic containers

Move away from outdated, single-trip disposable packaging

mpact has an array of multi-trip, re-usable containers that constitute the largest range of Returnable Transit Packaging (RTP) systems in South Africa. All products fall into one of five basic categories...

- Materials handling
- Environmental
- Jumbo bins
- Agriculture
- Retail.

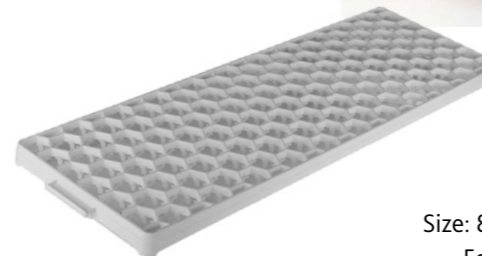


Live Bird Catching Crate 220
 Size: 1 160 x 760 x 220 mm (H)
 Carrying Load: 20 live birds
 Stack Height: 202 mm
 Material: HDPE

Live Bird Catching Crate 255
 Size: 1 160 x 760 x 255 mm (H)
 Carrying Load: 20 live birds
 Stack Height: 237 mm
 Material: HDPE

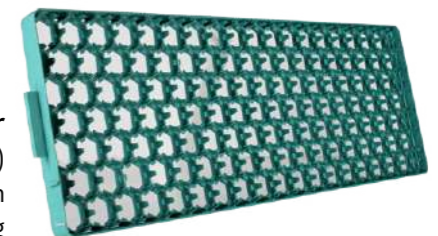


Day Old Chick Crate
 Size: 528 x 462 x 135mm (H)
 Carrying Load: 20 kg
 Max Load on Base: 160 kg
 Stack Height: 120 mm
 Material: Polypropylene



132 Egg Setter
 Size: 890 x 307 x 36 mm (H)
 Egg Holder Lug: 32Ø mm
 Carrying Load: 12 kg
 Material: Polypropylene

126 Egg Setter
 Size: 884 x 307 x 36 mm (H)
 Egg Holder Lug: 32Ø mm
 Carrying Load: 12 kg
 Material: Polypropylene



Chicken Coop
 Size: 740 x 545 x 308 mm (H)
 Carrying Load: 37 kg
 Stack Height: 302 mm
 Material: Polypropylene



Hatching Basket
 Size: 976 x 388 x 116 mm (H)
 Carrying Load: 20 kg
 Max Load on Base: 160 kg
 Stack Height: 105 mm
 Material: Polypropylene



Recycling

Old crates may be returned to Mpack Plastic Containers at the end of their 10–15 year life cycle. We have an on-site recycling facility where we recycle old products and use this recycled material to create new plastic products. This is how we are closing the loop and ensuring minimal natural resources are extracted from the Earth's surface.

Mpack Plastic Containers form part of Mpack Operations. There are two manufacturing plants; one in Brits, North West, and the other in Atlantis, Western Cape. Each plant is host to a 5500t Engel Duo machine, the largest of its kind in the southern hemisphere.



Atlantis: 021 573 9400 Brits: 012 250 9100
www.mpacksa.co.za • salesforce@mpacksa.co.za



SAPA's Breitenbach explains: "The objectives of the plan hinge on increasing local chicken consumption and so growing the demand for chicken, while also addressing the exporting of locally-produced cooked and raw chicken products."

The five pillars of poultry success

The master plan for the poultry sector has identified 'five pillars' that are instrumental in growing South Africa's poultry industry.

- The first pillar includes the establishment of partnerships to increase production and availability of feed, while simultaneously ensuring that workers are provided with training and development opportunities.
- The second pillar entails driving domestic demand and the affordability of local broiler products.
- The third concerns the establishment of the safety and veterinary requirements within markets and offering producers opportunities for exporting their chicken products.
- The fourth introduces measures to enhance the regulatory environment and ensure compliance. This includes making products traceable and announcing measures to ensure that the industry as a whole complies with trade requirements.
- The final pillar aims to protect the local chicken industry by considering specific rather than *ad valorem* tariffs; simplifying trade systems; undertaking anti-dumping measures where appropriate; and considering the introduction of import licenses to support compliance.



Implications for poultry retail

For retailers, the second pillar of the master plan – i.e. driving domestic demand and the affordability of local broiler products – is undoubtedly the most relevant. And in order to drive sales and increase demand for the range of chicken products stocked in your store, there is a need to understand what motivates consumers to buy chicken in the first place.

- Traditional animal meat product purchase is driven by delicious taste, preparation versatility, family appeal and great value for price. In addition to these main motivating factors, trends in the market and advertising also contribute as further motivation.
- In short, consumers buy chicken for versatility, value and variety. Your stock selection and ordering of products, as well as your store merchandising and shop displays, should all strive to highlight these factors for your customers if you are to drive sales of chicken products.

- In addition, few South African consumers are willing and able to pay a premium for breast meat. This is in contrast to the European and American markets, where dark bone-in meat is perceived as inferior. However, here in South Africa the need for cheap animal protein continues to thrive, and drives sales of bone-in chicken cuts and chicken offal.

Covid's curved ball hits again – and local poultry shows resilience

The lockdown situation has thrown a short-term curved ball at the poultry category. In South Africa, the current demand for eggs is high due to financial stress experienced by many people, says Robbie Capozorio, Business Development Manager of the OBC Chicken group.

This is in spite of the fact that chicken prices are lower and some meat prices, such as pork, have plummeted. Even so, the resilience of local poultry in the South African market has still been borne out by the growth of chicken giant RCL share prices during lockdown, with this group performing in the top five in March of this year, according to an IOL report.

Capozorio expects an increase in demand for chicken after lockdown, as it is considered a basic necessity by budget-conscious consumers: "The market will correct itself," he says. In addition, he adds, the exchange rate with a weaker Rand favours local products. With so many factors impacting on the category, Capozorio's advice to retailers is "keep it local and keep it quality."

Get some excitement into your chicken sales

The current environment – and beyond – offers excellent opportunities for retailers to bring some excitement and action into the chicken category.

Enticement and differentiation

Products grouped together can put a customer's imagination to work. A display can group together items by use, price, size, type, or by colour scheme. Product grouping is enticing because it shows instead of tells by igniting consumers' imaginations. They'll be likely to take a closer look if they are enticed by the grouping in the display.



Differentiate products further by labelling and other information. For example, best price, on special, on promotion, free range, organic, locally sourced, locally produced, responsible farming practices, and so forth, depending on the consumer values of your market. Since consumers have so many different options when it comes to selecting their food, poultry companies and retailers will benefit by highlighting the unique selling position of a product.

[Click here to visit our website and like us on Facebook.](#)

Whether the product is new or familiar, communicate its differentiated selling position with features such as the product's exceptional quality, value for money, origin or other unique characteristics. And, of course, freshness is always paramount!

Local: Many consumers feel that buying local is important. Join the local is lekker movement and let your customers know they are buying home grown chicken.

Convenience: Various preparation alternatives exist for the consumer, with products like pre-marinated chicken or chicken wraps that can be eaten by the mobile consumer or simply delivered to the home. As lockdown regulations ease, there will still be many opportunities for retailers to reach out to their customer base with quality pre-prepared foods substituting for a restaurant meal or takeaway.

Engage the senses

While taste is the most powerful criteria for consumers to repeatedly purchase a food, perception is the leading driver of consumers' trial and first purchase of a product, so things like appearance, colour and packaging can help captivate the senses. This gives you an advantage over online shopping, as you can better motivate customers to buy your chicken products by creating a 'full body' experience. In the meantime, online shoppers have more visual capacity, so they are able to read a recipe that requires a specific chicken product, or take a longer look at what's on offer.



Sight: Use visual cues (lighting, colour, balance) to direct a customer's attention to your poultry products and displays. Contrasting heights and depths grab customer interest. Varying heights also fuel interaction among shoppers and products.

In the case of fresh poultry products, visual clarity is important. Packaging and presentation

must communicate freshness and suggest a positive taste experience. Regularly refresh displays and layouts. Small changes within your poultry or egg displays could inspire your customers to try a different product or buy more of a favourite product





ZIEHL-ABEGG



RETROFITBLUE

Now inform and modernize

ZA plus – intelligent high-tech fan system. Consumes up to 30% less electricity, savings of up to 21,000 ZAR* per annum per ZApplus fan, supplies significantly higher air volume flow rates, can be installed at 3 heights (On Top, Semi Flattop, Flattop), provides cost-effective, increased flexibility during installation and assembly. With the optional high-end diffuser, you can increase the efficiency once more in terms of low-pressure applications.

www.ziehl-abegg.co.za

*per year/unit, depending on duty-point, application and size



The Royal League

in ventilation, control and drive technology

POULTRY



Smell and taste: The sense of smell is more strongly associated with memory and connects with shoppers on an emotional level. Use this to your advantage. Create a sample table of prepared chicken products, especially value-added products,

or consider a service department rotisserie to entice buying.

Carpe diem – and the opportunities

Chicken and poultry products are by far the most affordable and popular meat protein product in South Africa. In light of the government's master plan to expand the poultry sector and increase demand for poultry, chicken product sales have the potential to thrive even more; as well as boosting local production and job creation.

While the current economic climate – created by the onset of the Covid-19 pandemic and a strong possibility of a looming global depression – will impact on retail sales, local chicken at lower prices has the potential to create a win-win scenario,

where higher volume sales can compensate for lower value sales for suppliers and retailers, the local market grows and consumers have access to affordable, quality products. Healthy industry competition and appropriate legislation also have the potential to benefit price-conscious consumers and boost poultry retail. As OBC's Capozorio emphasises, prediction is almost impossible at the moment, but the import tariff increase combined with the above factors seem set to promote 'local and lekker' in poultry in the foreseeable future. **SR**

