



## AN EVALUATION OF NICHE MARKETING WITHIN GLOBAL COMMODITY CHAINS: THE *WAGYU* EXAMPLE

Lorie Higgins and Raymond A Jussaume, Jr.  
*Departments of Sociology and Rural Sociology*  
*Washington State University*

---

### *ABSTRACT*

As part of a series of research projects on technology assessment being conducted in three states, we examined the market participation strategies of beef industry participants who are experimenting with the production of *Wagyu* beef. Through this research, we examine a variety of issues, including why producers are adopting *Wagyu* genetics and whether "niche" marketing strategies offer a viable alternative to producers.

### *INTRODUCTION*

From the viewpoint of the general public, tax supported research at Washington State University and other public universities that is focused on the development and dissemination of new technologies should promote the improvement of public social and economic well-being. Under the current political climate, there is increasing concern that government supported research at public institutions may not always be contributing to that goal. Thus, various governmental agencies, including the United States Department of Agriculture (USDA), have become interested in developing procedures for assessing whether the benefits of land-grant university research benefits the public that pays for the research.

To that end, the USDA is making efforts to develop and implement an improved methodology for technology assessment that would evaluate whether specific research projects should receive public support. As part of that program, the *Center for Rural Affairs* in Walthill, Nebraska is coordinating a project at three land-grant universities that evaluates three specific agriculturally related technologies. The goal of the project is to critically evaluate a modified assessment methodology that was produced by the Agricultural Science and Technology Research Board.

WSU's *Wagyu* project was selected as one of the three empirical examples to use as case studies for evaluating this methodology. *Wagyu* research at WSU has some fairly unique attributes, in comparison to other types of research conducted at land-grant universities, which make it a useful subject for a case study. In our report, we present some of the preliminary results of that study, which examined how and why some producers have participated in the *Wagyu* project. Our goal is to outline why ranchers have adopted the technology and whether their goals can be achieved under present conditions.

Our research project began in the Fall of 1996 and had as its primary objective an evaluation of whether the *Wagyu* research being implemented at Washington State University was benefiting cow/calf producers, feedlot operators and the local communities where their operations are located. The analysis is based upon the experiences of *Wagyu* producers affiliated with WSU's *Wagyu* project. After briefly describing our research methods, we explore the various factors that are shaping *Wagyu* production and distribution strategies.

#### **METHODS**

This study was initiated with a series of exploratory qualitative interviews with *Wagyu* researchers and other key informants who have intimate knowledge of *Wagyu*, beef/cattle production, or both. Because the initial interviews revealed a great deal of diversity in the motives and strategies of *Wagyu* users, further qualitative interviewing was deemed to be necessary. Because of time and monetary limitations, we opted to use a semi-structured telephone interview for the remaining interviews. The data collection phase of this research concluded with the completion of 15 face-to-face and 20 telephone interviews. To those of you in attendance today who agreed to be interviewed, we would like to extend our sincere thanks.

Sampling was initiated with a list of participants in Washington State University's *Wagyu* research program. Each contact from the list was asked to name other *Wagyu* producers not on the list so we could trace the diffusion of the technology as well as sample a broad spectrum of producers. Interviews were also conducted with several cattle producers and a packing plant executive who had either declined to use *Wagyu*, or had been, but were no longer, involved with *Wagyu*. These interviews were designed to determine similarities and differences between *Wagyu*

adopters and non-adopters and to gain a better understanding of *Wagyu's* potential place within the beef/cattle industry.

### *ANALYSIS*

According to nearly every individual interviewed for this research, the beef/cattle industry is in the midst of a deepening crisis, and there is fundamental agreement, among cow-calf producers at least, about the nature and sources of this crisis. In recent years, overall beef consumption has been flat while consumption of other meats has been increasing, indicating that beef's "market share" has been in decline. Most of our interviewees believe that part of the reason for this development is that there is little quality consistency in the beef being produced and marketed in the United States.

Furthermore, many of the cattle ranchers we interviewed feel that ranchers everywhere face increasing difficulty in weathering the fluctuating economic cycles of the beef/cattle industry. According to many of our interviewees, the sources of this crisis include the disjunctures created by the oligopolistic control of the industry at the fabrication/distribution end with the persistence of small entrepreneurial, family owned ranches at the cow-calf level. The disjunctures are exacerbated by the traditional practices of producers who vary greatly in motivations, skill and knowledge, breeds of cattle used, and available resources and capital. Further complicating the situation is the fact that each sector of the industry desires different product characteristics. Many *Wagyu* adoptees are individuals who are highly concerned about these developments and who hope that *Wagyu* can be used as part of a strategy to rectify this situation.-

#### *The Tao of Wagyu*

*"Wagyu are unexcelled in calving ease and palatability—especially compared to Semintols—they were a joke. I used to say to the vet: 'sew a zipper in that one so we don't have to do another c-section.' When using Wagyu on first-calf heifers I don't even get up at night. I just get up in the morning and count how many new ones I have."* (Wagyu producer)

*"To look at 'em in a pen of fat cattle—they don't look good—but when you hang them up on a rail, that Wagyu cut outgrades them all and that's worth a lot more money."* (Wagyu producer)

*"We smoked a 3/4 Wagyu bull for our daughter's wedding reception. Everybody that had it said they've never had such nice beef."* (Wagyu producer)

*"They all think they deserve more money for their pet breed. They all want value-based marketing, but everything can't be better than everything else."* (packing plant executive)

Hopes and dreams for better future arrangements were a common theme in the interviews we conducted with *Wagyu* producers. Most *Wagyu* producers anticipate both tapping into the Japanese market, which would help stabilize the domestic industry by adding value to domestic cattle, and participating in the development of domestic niche markets for a premium grade of beef. It is hoped that the creation of domestic outlets for *Wagyu* will lead to a greater emphasis on quality industry-wide, and a more favorable economic environment for smaller producers who would otherwise remain locked into the beef commodity system where they are disadvantaged relative to the packing sector.

According to the interviewees, *Wagyu* may signal a turning point for the American beef/cattle industry for several reasons. First, it is one of few breeds ever imported for its quality rather than quantity characteristics. Second, the use of *Wagyu* genetics appears to be extremely beneficial in minimizing losses associated with dystocia. Third, heifers crossed with *Wagyu* produce high grading calves, in comparison to the use of Longhorn genetics on first-calf heifers. Ranchers can be docked as much as ten cents per pound for Longhorn calves. Finally, *"A positive thing about Wagyu is you can leave them on grass a little longer."* (*Wagyu* marketer) *Wagyu* cannot be "crowded" on feed as they take longer than other breeds to mature, and gain weight slower than other breeds. Taking advantage of this ability by leaving *Wagyu* on grass for a longer period of time than is customary with other breeds may work quite well with the changing resource base of producers. Thus, many participants in WSU's *Wagyu* project believe that the smaller size of *Wagyu*, including lighter weaning weights, which can translate into lower prices if a premium is not included, is more than made up for by the quality of the product, the desirable yield grade, and the reduction of dystocia.

**In the Shadow of the Giants**

*"Wagyu meat is like Starbuck's coffee or micro-brewed beer, but we can't use it to our advantage because of the distribution system. Gotta find someplace where you can kill 'em, get 'em inspected, get 'em fabricated, and get 'em delivered." (Wagyu producer)*

*"It's a shame that the beef industry has been lost by the people that care about it the most and it's controlled by the people that care the least for the quality." (Wagyu producer and veterinarian)*

*"The 'big three' aren't interested. They buy cattle on averages and so a value-added product like Wagyu doesn't fit their system. A commodity operation means beef is beef." (Wagyu marketer)*

*"The reward system isn't there to promote quality." (Wagyu breeder)*

Each of the above comments made by *Wagyu* producers are representative of sentiments expressed by nearly all the participants in this research. They implicate the large packing companies that dominate the beef fabrication and distribution system in the U.S. as being responsible for some of the difficulties producers face in marketing *Wagyu*. A major problem, from the standpoint of *Wagyu* producers, is that packing companies typically buy cattle according to a commodity pricing formula rather than per carcass performance. The producer is paid the same amount for his or her lowest and highest quality carcasses, with the packer capturing any profits from prime carcasses that happen to be produced. Producers do not know if they have produced one or more prime carcasses, and do not receive any feedback that they can utilize to reproduce quality. Retained ownership has been promoted as an alternative, but this strategy is very risky because cow-calf operators are not in control of the feeding process and have to wait until slaughter before they can receive any income.

Many interviewees appear to be attracted to *Wagyu* as a means for re-capturing some of the profits that accrue to large meatpackers by producing beef of such consistent quality that they can be rewarded for their extra efforts. The difficulty in engaging in such a strategy is that it is difficult to market a product outside of the standard, oligopolistically controlled channels. *Wagyu* participants are hopeful that an alternative *Wagyu* marketing system can be developed to

sell their product to Japan as well as to domestic niche markets. The future viability of *Wagyu* will be heavily dependent on the ability to create such an alternative marketing system.

### **The Role of Tradition**

*"Cattle people are the hard-headedest. They look at the wrong things to judge quality. They think Wagyu looks like a dairy cow."* (Wagyu producer)

*"I think we're going to have to start answering to the consumer. . . . Those days of saying we'll produce it, someone will buy it is no longer true, because we've seen a decline in the consumption of beef since the 1970s and it's not getting any better."* (Wagyu producer and genetics broker)

*"I always hear the Japanese are tough, "but if you read the fine print and sell them what they want, they are easy to deal with. And they always pay their bills—not like Americans who often try to cut the bill one way or another."* (Wagyu breeder)

One of the interesting contradictions that the introduction of *Wagyu* has helped to highlight in the cattle industry is that the structure of the industry at the cow-calf level, and the weight of tradition, can serve to hold back the further development of the industry. Although many producers, including those who do not produce *Wagyu*, commonly criticize the structure of the industry, they also do not feel comfortable in engaging in an alternative strategy, like *Wagyu* production, that would necessitate their adopting some new management practices. Many producers have been reared to be "good cattlemen" (and occasionally "good cattlegirls") and are not comfortable dealing with marketing issues, particular those related to understanding the needs of non-U.S. markets. We believe it may be significant that many of the producers that we interviewed who have adopted *Wagyu* have had previous work experiences in marketing, either outside or inside of the beef industry. In addition, some producers are understandably nervous about adapting what some see as a new "fad," given that many have lost money in the past to other fads, such as the "beefalo" breed that was promoted a number of years ago.

### **Other Problems**

*"The other super big problem would be our grading system. It's basically back in the dark ages." (Wagyu producer)*

*"It was important that the genetics be given to research institutes to prove the worth of the cattle from an unbiased position." (Wagyu producer)*

*"So the Japanese are starting to invest their dollars into what really drives a business and that is the packing end of it—the fabrication of beef. . . . The Japanese like investing in the West Coast. They're used to dealing with us." (Wagyu producer)*

*"Right now we feed them all the same. We don't care, we put them all in these great big feed lots with 500 head in the pen, even though we know the end result is cattle are different." (Wagyu producer)*

A major problem with the development of *Wagyu* is that the current production system, from breeder through retailer, is not geared towards its adoption. As some of our interviewees noted, the dominant system in the industry does not send consistent signals, and is not very flexible. This is because each stage of the system is focused on different aspects of the final product. As one interviewee put it,

*Each sector of the industry defines quality differently. The producer defines a quality calf as one that has hybrid vigor, gains weight, and weans easy. The feeder defines it as gainers that don't get sick. Packers look solely at pounds.*

This is one reason why most *Wagyu* producers only adapt part of their operations to *Wagyu*. They do not concentrate solely on *Wagyu* nor do they abandon their participation in the dominant system. To do so is too risky, at least at the present time. In addition, the major alternative to the U.S. system that exists is being financed to a large degree by large Japanese firms. The producer who adopts *Wagyu* is very much a part of a system that they can not escape from, and their only recourse is to develop a mixed approach that can leave them with some breathing room from the dominant system. They can not freely and wholeheartedly adopt an alternative production strategy because there is no alternative to the current system to support it. The

strategy these producers select is to fold *Wagyu* into part of their operations in a manner that they hope will maximize income and reduce some risks.

Yet many producers hold out hope for a truly alternative system, one that would reward them for their extra efforts and their interest in producing a high quality product. Their hopes have been buoyed by inquiries from potential domestic clients outside of the dominant system for high quality beef. However, the ability to create an alternative system is dependent on raising capital not available to those outside the dominant system. For example, several interviewees were excited by rumors of a cutting edge processing facility in North Dakota that would be geared for export fabrication, and would also process for domestic niche markets. Thus, while it makes more sense at the present time for producers to blend *Wagyu* into only one part of their operations, their hopes for real alternatives remain.

### **Of Panaceas**

*"So the sleeper is, if you could figure out how to come up with a better than prime carcass consistently, and then develop a domestic market for it, I think you'd do fine. If you can get the genetics right, then the infrastructure will develop to accommodate it—though it may be on a small scale at first."* (Wagyu producer)

*Individual producers need to cooperate and change strategies to compliment the alliance. Seeing the transition phase now. Old habits die hard -- especially among cattle people."* (Wagyu producer)

*Wagyu* producers are at a stage where they need to begin thinking about what kind of commodity system they should support to help provide a foundation for the new kind of marketing strategy they envision. One option is strategic alliances, where producer or packer/producer cooperatives are formed where each producer is responsible for utilizing feedback from the packer to improve or maintain quality standards. The other option is a system of contract buying and integration where individual growers yield production decisions to the "integrator" who organizes and maintains relationships with Japanese buyers.

We feel that it is unlikely that both strategies can exist side by side. Thus, individuals in the industry who wish to promote *Wagyu* production need to consider which approach they would

prefer. It is unlikely that either system can exist without outside financial support, so this will obviously be a major consideration in the decision-making process. Because those that engage in *Wagyu* production are such a diverse group, and because the traditional culture of the cattle industry is one that is centered around individuality, the strategic alliance strategy will be difficult to implement unless producers can reach an understanding for the need to cooperate extensively in developing such a system. The vertical strategy may be more viable, in part because it makes use of a form of contractual relationship that many producers are already familiar with. In either case, our research suggests that while new agricultural products destined for niche markets, like *Wagyu*, may offer a business opportunity to producers that have typically been unable to increase their profitability in the face of oligopolistic control of cattle prices, such promise will not be realized until an alternative marketing system that rewards producers for improving quality can be created.