

Horsemeat: Yay or Neigh?

Written on 30/07/2013

The recent horsemeat scandal has highlighted how the integrity of today's food supply chain can easily be broken down. Due to the mislabelling, consumers have lost trust in the industry in assuring the quality and transparency of their food. As the industry recovers from the scandal, certain companies and business models are likely to come out on top.

The horsemeat scandal first struck Britain and Ireland, when their respective food safety agencies confirmed the presence of horse DNA in beef burgers sold in food retailers. Within a few weeks, the horsemeat scandal reached more than 28 firms in at least 14 European countries. Horsemeat was discovered in beef products, most of which were ready-made meals, found in supermarkets, school and hospital canteens, and restaurants. The magnitude of the horsemeat scandal is like no other with past food related issues being isolated to only one or two countries.

“ The scandal is about mislabelling and not health & safety.

The horsemeat affair is a labelling scandal and not a health & safety one as horsemeat is safe for human consumption and the levels of bute (a.k.a. phenylbutazone), a drug commonly used for horses, would be too low in the horsemeat to affect humans (Fergus, 2013). It is nevertheless a scandal of importance as food products originally labelled as beef actually contained up to 100% horsemeat.

It's complicated

The horsemeat scandal has revealed how complicated the food supply chain has come to be – with too many middle men between farm and fork thereby increasing the risk of an integrity break-down.

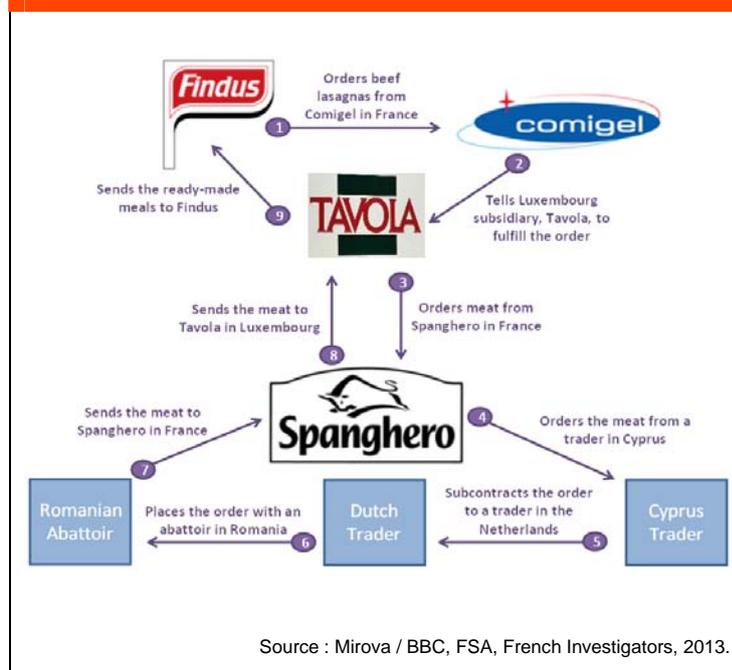
A clear example is the ordering process for Findus' ready-made meal products, where the order for meat from the food processor went through three intermediaries before reaching the abattoir (see Figure 1).

The lengthy supply chains in the industry have been developed to facilitate the purchase of ingredients for processed foods at

the cheapest prices and allow for flexibility by outsourcing the food processing to small and medium sized enterprises.

Meat is a staple product which buyers would want to get the best offer available. Usually dealing with 10-20 abattoirs on a regular basis, buyers purchase the meat from the abattoir offering the most competitive price – causing buyers to change supplier every time depending on the supply of the meat. Additionally, since buyers look for the best end-of-the-line deals that usually happen when abattoirs have too much meat; abattoirs don't know where their stock is going until the last minute making it difficult to monitor companies' supply chains (Lucas, From workhorse to main course, 2013).

Figure 1. Findus Beef Supply Chain



Moreover, the amount of firms and countries affected by this scandal show how not only one source is responsible as authorities of different countries pursue various leads:

- French authorities say that company Spanghero is responsible for the horsemeat found in Findus products.
- Dutch prosecutors currently have an on-going criminal investigation concerning a meat processing plant based in the Netherlands. A Dutch trader convicted in early 2012 for selling South American horsemeat as German and Dutch meat is also suspected to be part of the current scandal.
- British authorities raided 5 businesses and arrested 3 men on suspicion of selling horsemeat as beef burgers and kebabs (Lawless, 2013).

“ Although regulatory checks and balances exist to avoid adulterations in the supply chain, its complexity makes it difficult to completely eliminate them from the system.

The integrity of the supply chain is highly dependent on self-regulation within the food industry itself. However, as seen with the recent horsemeat scandal, the current method of self-regulation has failed to prevent it from happening.

Table 1. Glimpse of a few affected companies & countries

Date	Company	News
15 January	Aldi	First detection of horsemeat found in beef burgers
15, 18 February	Lidl	Lidl withdraws products with undeclared horsemeat from its supermarkets in Sweden, Finland, Denmark and Austria.
13 February	Coop	Swiss based supermarket confirmed the presence of horsemeat in frozen lasagna.
18 February	Nestlé	Ready made pasta meals sold in Italy, France and Spain contained more than 1% horsemeat.
22 February	Birds Eye	Birds Eye withdrew three ready meals when it was discovered that traces of horse were found in a different ready meal from the same supplier.
25 February	Ikea	Horsemeat was found in their meatballs sold in the Czech Republic, Slovakia, Hungary, France, the UK, Portugal, the Netherlands, Belgium, Spain, Italy, Greece, Cyprus and Ireland.
12 March	Tesco	Tesco continues to find horsemeat in its own brand products - the latest product to have been detected with horsemeat is their Simply Roast Meatloaf

Source : Mirova / News Agencies, FSA , 2013.

Price Wars

The European economic slowdown leading consumers to be more price sensitive has engaged shops into battle to retain

consumers by luring them with cheap food, with some ready-made meals selling for as low as 2€. As customers are tightening their belts, retailers are cutting costs and relaying it further down its supply chain.

“ Recent changes in the market have brought about an increased supply of horsemeat.

Certain events have brought about an oversupply of horse meat driving down its price:

- One is the increasing amount of cash-strapped horse owners all over Europe (especially Ireland) unable to provide for them. Thus, instead of letting their horses suffer, owners send them to abattoirs to treat them in a more humane manner (Smyth, 2013).
- Another event is the recent enforcement of legislation regarding horse-carriages on the road in Romania. In the past, horse-drawn carriages were a common sight on Romanian roads. However, the legislation banned horse-drawn carriages on the road and led to a growing influx of horses to the abattoirs (Lichfield, 2013 - Arumugam, 2013). In Romania, horsemeat sells for 0.50€ per kilo while beef sells for 3€ (Lucas, From workhorse to main course, 2013). It is therefore not surprising as to why someone would take up the chance to switch the meats.

Opportunities ahead

The horsemeat scandal will bring about changes in the food industry:

- Within consumers, it will be interesting to see if the scandal will alter their buying habits.
- Companies will probably put in place initiatives to gain back consumer trust.
- Regulators will continue to find ways to ensure that such a scandal doesn't happen again. Throughout this transformation, certain companies and business models will prevail over others.

Consumers will temporarily avoid the affected products and purchase alternatives. Reports revealed that four weeks after the scandal broke out the sales of affected products such as frozen burgers went down while the sales of organic and vegetarian options went up (Kantar WorldPanel, 2013 - Lucas, 2013). Organic and vegetarian food companies are, thus, best-positioned to gain from this temporary behavioural change.

Organic foods benefit from a shorter supply chain, which are more difficult to compromise.

However, this behavioural change is probably temporary as studies have shown that buying patterns after a food scandal would gradually go back to the buying patterns before the scandal occurred (Schlenker & Villas-Boas, 2006). Stronger efforts will need to be made to shift consumer buying habits from ready-made meals and frozen foods with long and complicated supply chains to foods with supply chains less susceptible to integrity break downs.

“ While the effects of the scandal on consumer behaviour are temporary, those on companies and regulators will be more permanent.

The effects of the scandal on the companies and regulators, on the other hand, will be more permanent. Initiatives have already been placed into motion so as to ensure that the scandal doesn't happen again. One such initiative is the simplification of the food supply chain:

- McDonald's, a company famous for its burgers, was untouched by the scandal as it has deeply invested in making its supply chain simple and transparent.
- Following suit, supermarket chain, Tesco has pledged to improve its supply chain by putting in place better controls, sourcing its produce locally, building longer lasting relationships with its suppliers and increasing transparency (Tesco).
- The EU has proposed a resolution regarding tougher labelling of agricultural and food products.

Regulators will also expect food companies to put into place more tests to ensure the compliance of their products with food safety. Testing, inspection and certification (TIC) companies, such as Eurofins – a life sciences company in pharmaceutical and food testing, will greatly benefit from the demand for further testing.

Since the horsemeat scandal broke out, TIC companies have already seen an influx of demands. This trend is likely to increase as future regulation changes will require more tests.

“ Scandals expose the weaknesses and highlight the strengths in current systems.

Apart from exposing the fragility of the supply chain, the horsemeat scandal has also shown that such scandals can easily happen in mature markets where controls and regulations are generally stricter and better enforced.

Moreover, other scandals similar to this are also happening in different parts of the world:

- A recent study done by American NGO, Oceana, revealed that fish products being sold in United States retail outlets were mislabelled. Out of the 1,200 samples taken from 674 retail outlets, one third of the samples were incorrectly labelled, i.e. the species of the product itself did not correspond to the species indicated on the label.
- In South Africa, a study showed that donkey, goat and water buffalo meat have been disguised as beef in meat products such as burger patties, deli meats, sausages and dried meats.
- In China, Yum Brands, owner of the KFC fast-food chain, suffered food safety concerns when it was revealed that the chicken provided by its suppliers were injected with growth hormones and antiviral drugs beyond food safety limits.

Supply chain scandals such as these highlight the importance of control, traceability and transparency in the food supply chain. As supply chains get more complicated, the ability to control and increase transparency in the supply chain will be a long-term driver that companies would need to adhere to.

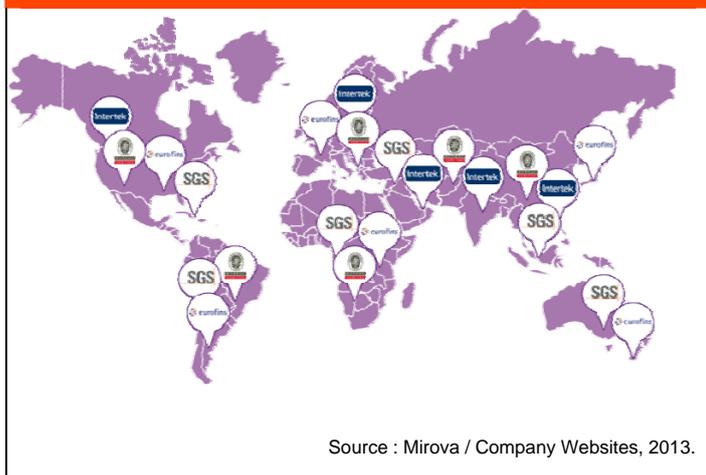
Mirova's strategy is to invest in companies that answer to and benefit from long-term trends such as the increasing need for safety and security in our food's supply chains.

Scandals like these highlight the importance for companies to have a long-term vision and affirm Mirova's strategic choice. They highlight certain flaws in the current system and bring attention to those able to remain untouched and those able to rise above the challenges – in this case, the ability to closely monitor and enforce strong controls over its supply chains.

They test the strength of companies and their abilities to improve their practices once their faults have been highlighted. Moreover, they also bring attention those who would further benefit from the change within companies (for example, TIC companies will benefit from an increase demand in food testing from producers).

In conclusion, businesses that come out of scandals unscathed, improved, or enhanced are those who've proven their ability to last through difficult times and provide their stakeholders with long-term value.

Figure 2. Food laboratory locations of selected TIC companies



Written on 30/07/2013.

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