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The market of reindeer meat in Finland
Scarce resource – high-valued products

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Abstract: In 2004 the total production of reindeer meat was about 2.5 million kilos in Finland. About 1.8 million kilos were sold to consumers through the retailing or catering sector. The reindeer owners consumed themselves or sold directly to final customers about 0.7 million kilos of meat. The majority of reindeer meat processors were small enterprises. They employed less than five persons and the turnover was modest. Large companies processed most of the reindeer meat. These companies sold reindeer products like other products to nationwide retailing markets. Reindeer meat was sold most commonly as frozen meat. The main product was frozen sliced reindeer. The majority of the processed reindeer meat was sold to consumers through retailing. The export of reindeer meat was of minor importance to the processors. At the moment reindeer meat is a source of livelihood to a small and skilled group of professionals. Reindeer meat could be processed and sold more effectively to well paying niche markets by improving the cooperation between the companies.

Key words: consumption, meat processing, retailing.

Poronlihatuotteiden markkinat Suomessa

Tiivistelmä: Vuonna 2004 poronlihaa tuotettiin Suomessa noin 2,5 miljoonaa kiloa. Vähittäismyymälöiden, suurtalouksien, tukkuliikkeiden ja jalostusteollisuuden kautta myytiin kuluttajille noin 1,80 miljoonaa kiloa poronlihatuotteita. Poronomistajien omaan käyttöön mennyt tai poronomistajien suoraan kuluttajille myyty poronlihamäärä oli noin 0,7 miljoonaa kiloa. Lihanjalostajille poro on niukka raaka-aine, josta valmistetaan arvostettuja tuotteita erikoislihamarkkinoille. Yli puolet poronlihaa jalostavista yrityksistä on perustettu 1990-luvulla tai sen jälkeen. Näistä suurin osa on pieniä yrityksistä, joille poronlihanjalostus on tärkein toimiala. Pienten yritysten kilpailukyky perustuu lähialueelta hankittuun raaka-aineeseen ja ne ovat yleensä erikoistuneet lähimarkkinoihin, omaan tuotteistoon tai räätälöityyn asiakaspalveluun. Pääosa poronlihasta käsitellään kuitenkin muutamassa suuressa lihanjalostusyrityksessä, joille poronlihatuotteet muodostavat usein vain pienen osan yrityksen liikevaihdosta. Seitsemän suurinta yritystä käsittelee 80 prosenttia poroista. Suuret jalostusyritykset myyvät tuotteensa valtakunnallisille vähittäiskauppamarkkinoille ja niille porolihatuotteet ovat tärkeitä yrityskuvaa vahvistavia erikoistuotteita. Vain runsas kolmannes poronlihasta jalostettiin yrityksissä, joissa päätoimialana oli poronlihanjalostus. Poronlihaa käsittelevien yritysten kokonaisliikevaihto oli noin 79 miljoonaa euroa vuonna 2004. Poronlihan jalostuksen osuus oli siitä noin 16,5 miljoonaa euroa. Jalostus työllistää kaikkiaan noin 120 henkeä. Poronliha myydään useimmiten pakasteena. Lähes puolet kaikesta jalostetusta poronlihasta on pakastekäristystä. Valtaosa siitä myydään kuluttajille vähittäiskaupan kautta. Poronlihajalosteista noin viidesosa on tuoretuotteita, esimerkiksi raakapaloiteltua lihaa, paistia tai fileitä. Saman verran poronlihaa myydään savutuotteina. Pääosa niistä on kylmäsavutuotteita. Vähittäiskaupan keskittyminen, markkinoiden segmentoituminen ja kulutustottumusten muuttuminen asettavat uusia vaatimuksia poronlihan tuottajille, jalostajille ja kauppiaille, mutta luovat myös uusia mahdollisuuksia koko poronlihan tuotantoketjulle. Tällä hetkellä rajallisesta raaka-aineesta hankkii elantonsa pieni ja ammattitaitoinen joukko toimijoita, joiden yhteistyö on vielä kehittymätöntä. Yritysten välistä yhteistyötä ja työnjakoa tiivistämällä voitaisiin pieni raaka-ainemäärä jalostaa ja myydä entistä tehokkaammin hyvin maksaville markkinasegmenteille.

Introduction

Finnish food market has changed rapidly during the last ten years. Formerly the domestic primary production was tightly protected with national production subsidies and high custom tariffs but when Finland joined the EU it adapted the EU trade and food policy. The production conditions of the Finnish food industry changed considerably. The price of the raw material dropped to the same level as in other EU countries and simultaneously the competition became harder as the trade barriers between the EU countries were abolished (Volk *et al*., 2000).

The ongoing concentration and internationalisation processe**s** have led to structural changes which have had a direct influence on food processing industry (Anon., 2001; Niemi & Ahlstedt, 2006). The role of the retailing sector has become stronger. During the EU membership the margins of the food prices have developed unevenly: the margins of the retailing sector have increased, the margins of the processing industry have remained on the same level whereas the margins of the primary production have decreased (Niemi & Ahlstedt, 2005).

The market of reindeer meat has also had to adjust to the fast changes in the food trade. The general price level of most common meat products, such as beef or pork, has decreased considerably. New exotic meat products have been launched to the market and some of them are very competitive with a relatively low price level (Statistic Finland).

However, the major impact on the Finnish reindeer market was not caused by the EU membership but by Norway, another producer country. In 1995 Norway lowered the custom tariffs of reindeer meat, which increased the export from Sweden and Finland. The growth in trading normalised the producer prices in the Nordic countries: in Sweden and especially in Finland the prices rose while in Norway the producer prices went down (Reinert, 2002). Norway started to restrict imports again, which led to reduction in imports. As a consequence, the producer price in Finland fell by about 30%, because the supply increased by about 30% in 2004.

The profitability of reindeer husbandry collapsed, but the preconditions of the processing industry improved due to cheaper raw materials. The reindeer owners established companies or cooperatives and started to process reindeer meat. The reindeer owners as well as new companies began to explore new selling channels.

In 2004 the total production of reindeer meat was about 2.5 million kilos. The annual consumption is about half a kilo per Finn, which is less than one per cent of total meat consumption in Finland (Finfood). The aim of this study is to describe the reindeer meat processing and the market structure. In addition, the processors’ opinions and perceptions are presented.

Material

The data was collected from those reindeer meat processing companies which were approved by the Finnish Food Authority and which process more than two hundred carcasses per year[1]. The slaughterhouses were excluded. The data was collected by personal interviews from 39 companies at the beginning of 2005. Four companies refused to give detailed information on their selling. Therefore results of processed and sold quantities are based on the information received from 35 companies. The study concerns the year 2004. Total meat quantities are converted into weight with bone included.

Results

Description of the processing companies

The total turnover of the reindeer meat processing companies was about 79 million euros and the reindeer processing accounted for about 16.5 million euros. The majority of the reindeer meat processors were small enterprises. The turnover of one third of the companies was less than 100 000 euros. Only eight companies’ turnover was more than 1 million euros and four companies’ turnover more than 10 million euros.

Almost half of the reindeer meat was processed in the companies whose main line of business was meat processing. These companies used mostly other meat in their processing and the reindeer meat only covered a minor part of their turnover. The companies focussing on reindeer meat processed only one third of the total supply. About 80% of the reindeer meat was processed in 20% of the companies.

[1] In addition data was collected from one Swedish company concerning the operations in the Finnish market. Data was also collected from processing companies which didn’t need to be approved by the authority because their production is sold directly to final customers.

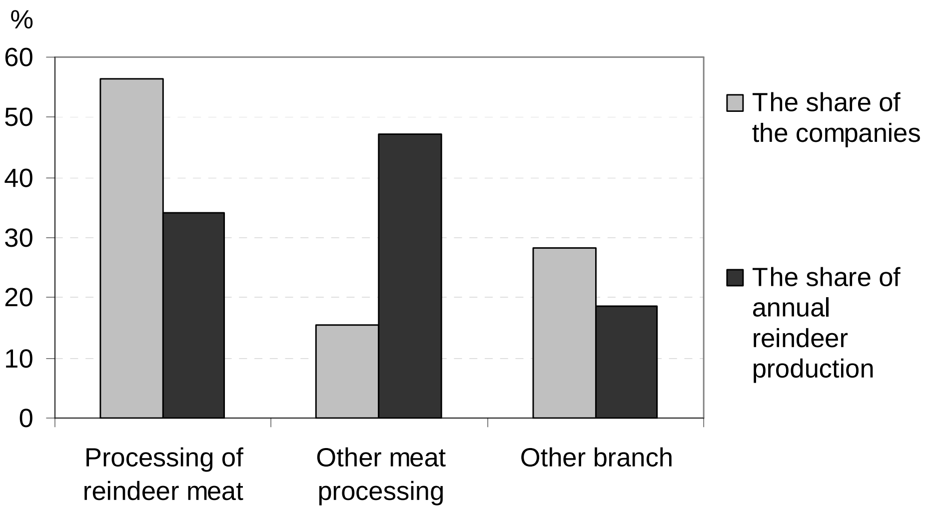

Fig. 1. Processors divided by main line of business and reindeer meat production.

The reindeer meat processing employed about 120 persons. The majority of the companies employed less than five persons and many of them only had one employee. More than one half of the processors were established in the 1990s. One fifth of the companies were established in the 2000s, but they processed only 10% of the reindeer meat. Most of the reindeer meat was processed in the old companies, established before the 1980s.

Supply of reindeer meat

The reindeer meat processors purchased about 2.2 tons of reindeer meat which included about 0.2 tons of intermediate products bought from other processors. In addition to this, the companies processed about 0.17 tons of meat owned by other companies or reindeer producers' customers.

Most commonly the processors purchased meat directly from the reindeer owners' association with whom they had verbal agreements. Some of the companies had also written contracts including details on quantities of delivery and pricing based on the size class.

A half of the processors considered that the quality of the reindeer meat is the most important purchasing criteria. The local source of raw materials was also considered important. The delivery reliability and the price were considered important criteria only in a few companies.

Processing and selling of the reindeer meat products

About 2.2 tons of reindeer meat was processed in 39 interviewed companies. The following results and figures are based on the quantities of 35 companies which gave detailed information on selling and processing quantities. These companies processed about 1.87 tons of reindeer meat.

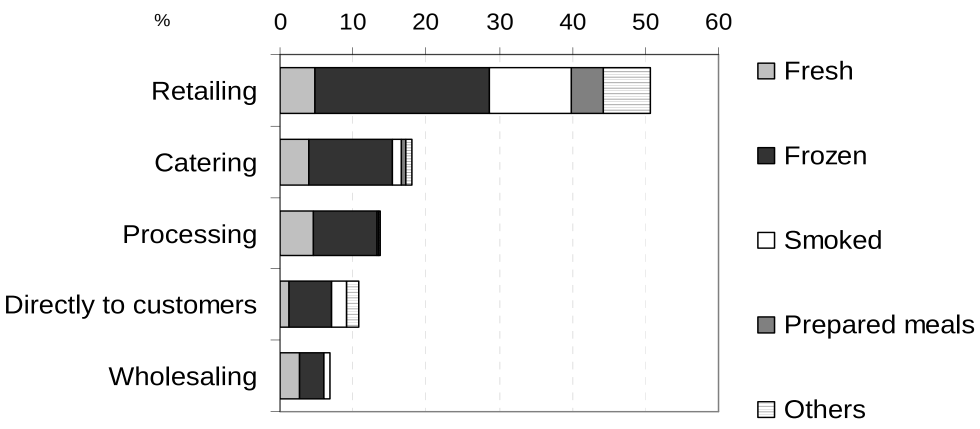

Fig. 2. Sales of reindeer meat by product group and selling channel.

Reindeer meat was sold most commonly as frozen meat and about 80% of it was frozen sliced reindeer. Frozen sliced reindeer was mainly sold through the retailing sector. About 20% of reindeer meat was sold fresh, mainly as fresh fillets or steak. The sales of fresh meat products were quite evenly divided between retailing, catering and food processing industry. About 20% of reindeer meat was sold smoked, mainly as cold smoked products. Two thirds of the smoked products were marketed to the retailing sector. About five per cent was sold as ready meals and < 10% as preserved foods, dried meat or sausages. These products were mainly marketed to the retailing sector.

The Helsinki metropolitan area and northern Finland were the most important market areas. The export of reindeer meat was marginal. Only small amounts of the most valuable products were exported to central Europe. The scarcity and expensiveness of reindeer meat made exportation more difficult.

The production capacity and the investment plans of the processors

The combined processing capacity of 39 interviewed companies was over 350 000 carcasses per year. This is about three-fold higher than the present amount of processed carcasses. Over 60% of the companies had overcapacity because of the great seasonality of the supply, the insufficient demand, the price level of reindeer meat or the market situation.

Despite the overcapacity more than one half of the processors planned to increase processing operations or product range. The smoking or freezing facilities were the most common investment targets. Some of the biggest companies were planning to invest on automation or marketing. None of processors intended to reduce production.

Processors' opinions on market situation

There was no consensus about the competition on the final market. One fifth of the processors saw reindeer meat as a special product with its own differentiated market without any significant rivals. However, majority of the processors regarded imported frozen red deer as the strongest competitor. Some of them considered that red deer is a threat to the entire reindeer market but others felt that the competition is confined merely to frozen sliced meat available in lunch restaurants and grocery stores. Some of the processors saw domestic elk meat as the strongest competitor, because during the last years an increasing amount of elk meat has been delivered to the market.

The opinions on small-scale processing were also diverse. Many processors believed that small-scale processing would become common, because the reindeer owners' interest and willingness have increased. Some of the processors disagreed, arguing that the small-scale processing will decline due to profitability problems. The increasing number of processors will tighten the competition while the small processors have to pay a higher price for raw material than the bigger processors.

Some small-scale processors were worried about finding time to do the necessary work. There is simply not enough time for reindeer husbandry, if the reindeer owner has to work as a meat processor and marketing director. Some small-scale processors thought that unprofessional marketing could lead to too low pricing.

Discussion

The reindeer meat processing companies can be divided into two groups. The first group consists of big meat processing companies which process most of the reindeer meat and market it to nationwide retailing chains. The reindeer products have an important role in building the arctic image of these companies, although the reindeer meat covers only a minor part of their turnover. The other group consists of small processors, whose strategy is to utilise local raw material. These companies are mainly focused on local market, special product range or delivery and selling channels. Small companies are often combined with primary production, own retailing stores, catering or tourist activities.

Reindeer meat is a scarce raw material, the supply of which is limited by reindeer husbandry regulations. However, the availability of raw material is a prerequisite for a competitive food industry. Thus most of the reindeer meat is processed in the companies which receive the major part of their turnover from other meat. The reindeer meat processors have had to adjust both production and marketing to the limited availability of raw material. There is not enough reindeer meat for mass production; therefore a nationwide supply of special products has been gradually increased with the general development of the meat market.

The consumption structure has changed during the last decades. In the 1970s a major part of reindeer meat was consumed in the reindeer production areas in the northernmost part of Finland (Kemppainen *et al*., 1997). At present the consumption is highest in the Helsinki region. In order to extend the market and to supply products to nationwide retail chains, it is essential to increase the effectiveness of processing, delivering and marketing.

The scarcity of raw materials offers a competitive advantage to the processors in the reindeer husbandry areas. The access into the business has been simple to those companies which have focused on own or local raw materials. For them the availability of raw materials is assured and the limited product has a permanent demand. The decline in the producer price has encouraged primary producers to invest in processing and to increase direct selling to final customers.

Nevertheless, many small-scale processors are worried about profitability. Problems may occur if the number of processors continues to increase and the producer price continues to rise. The tightening competition could be threatening to small processors, because they are not able to buy raw materials as cheap as bigger processors and they cannot exploit the scale of economy in processing or marketing. Obviously the potential growth of the small-scale processing will be based on the increasing cooperation within the processing companies or with other local companies in tourist or catering business.

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