



Value Drivers in the Cattle [Consumer] Business

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Time is the only resource that cannot be:

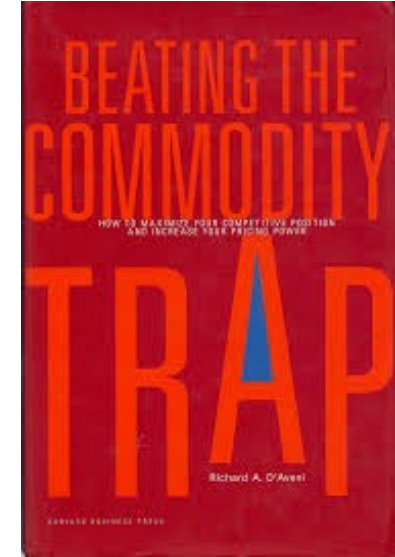
- Recycled
- Stored
- Duplicated
- Recovered

George Gilder, Foreword, Superabundance



NOT a commodity!!!

Beating the Commodity Trap Adapted from Sheth (c. 2010)



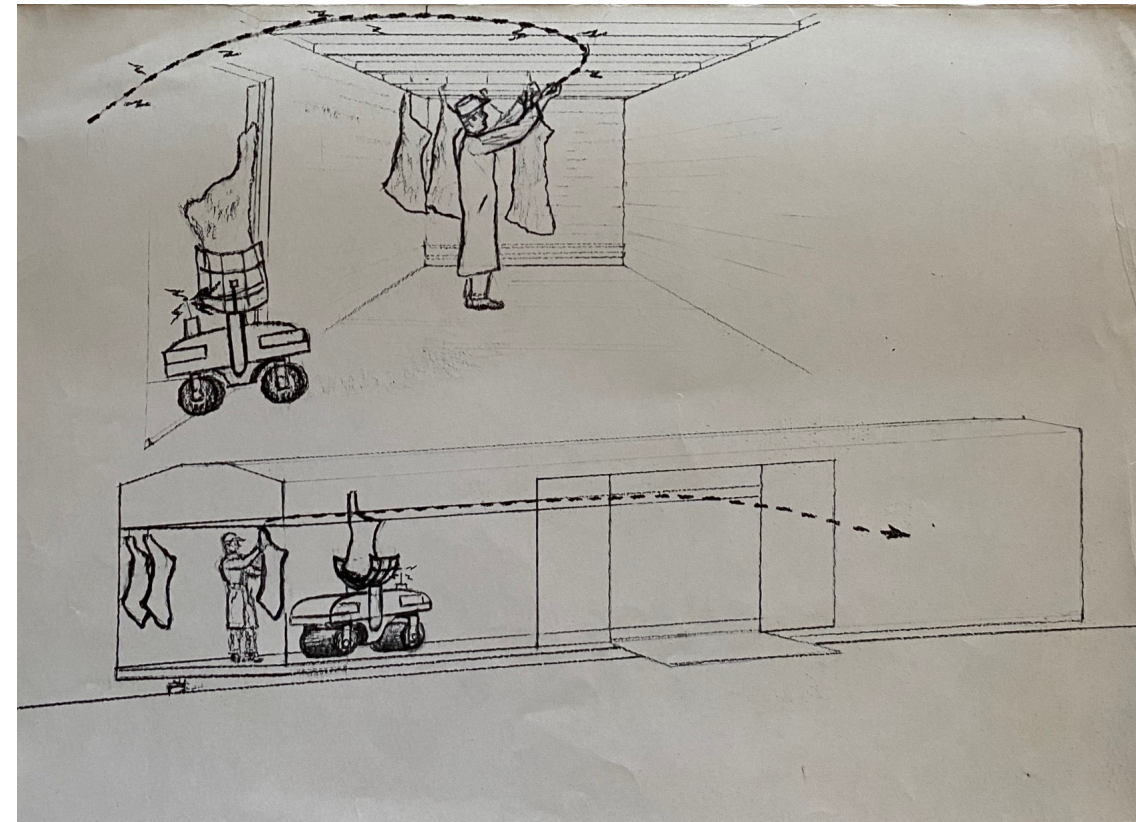
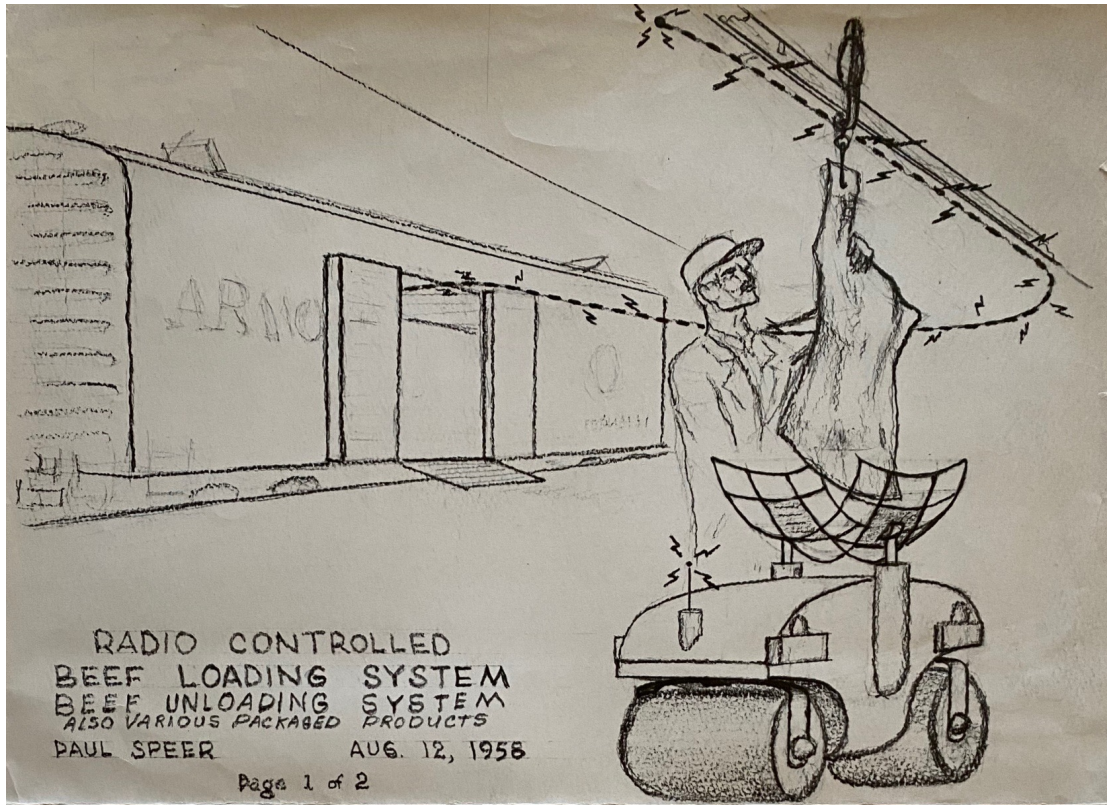
- **Can't match low-end rival**
 - Economies of scale
 - Cost structure
 - Experience curve
 - Even if you could, simply accelerates the deterioration when low-end discounter uses its muscle to punish the challenger
- **Turn the trap to your advantage:**
 - "Contain the low-end players market power to the low end."

**Differentiate on quality
Create value**

LOOKING BACK



Paul Speer (1958) Historical focus: NOT consumers!





NBQA Top Quality Challenges (Price / Value) Too Fat, Too Tough, Too Wonky

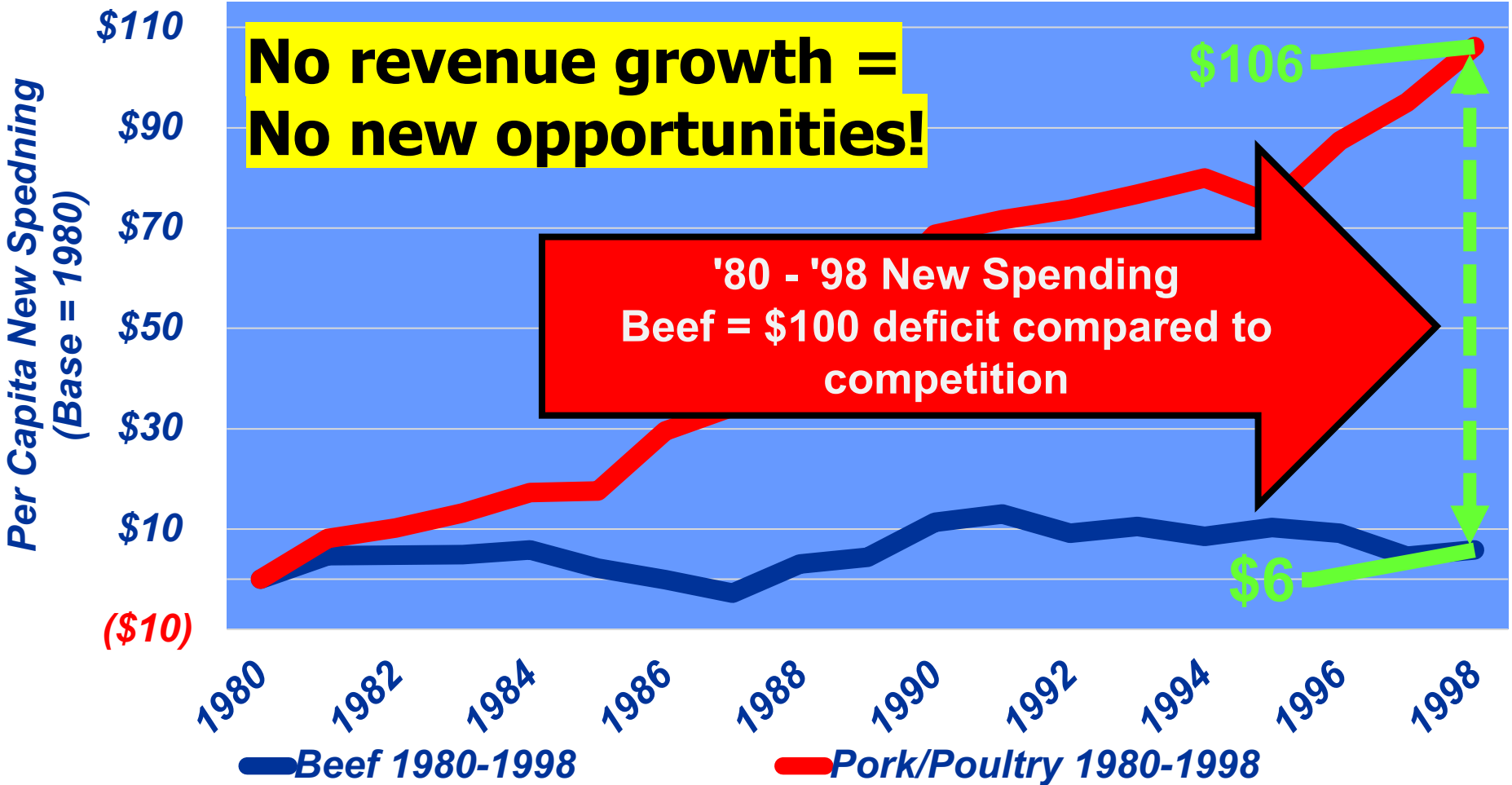
1991
External fat
Seam fat
Overall palatability
Tenderness
Overall cutability
Marbling

1995
Overall uniformity
Overall palatability
Marbling
Tenderness
External and seam fat
Cut weights

2000
Overall uniformity
Carcass weights
Tenderness
Marbling
Reduced quality due to implants
External fat

“The U.S. cattle industry cannot expect improvements in prices for its products or by-products when ‘quality’ doesn’t warrant such increases.”
1991 NBQA

Cumulative New Spending (v 1980) Beef v. Pork/Poultry (Adapted from LMIC)



Annual Kansas Fed Steer (\$/cwt): 1980-1998

Adapted from USDA/LMIC

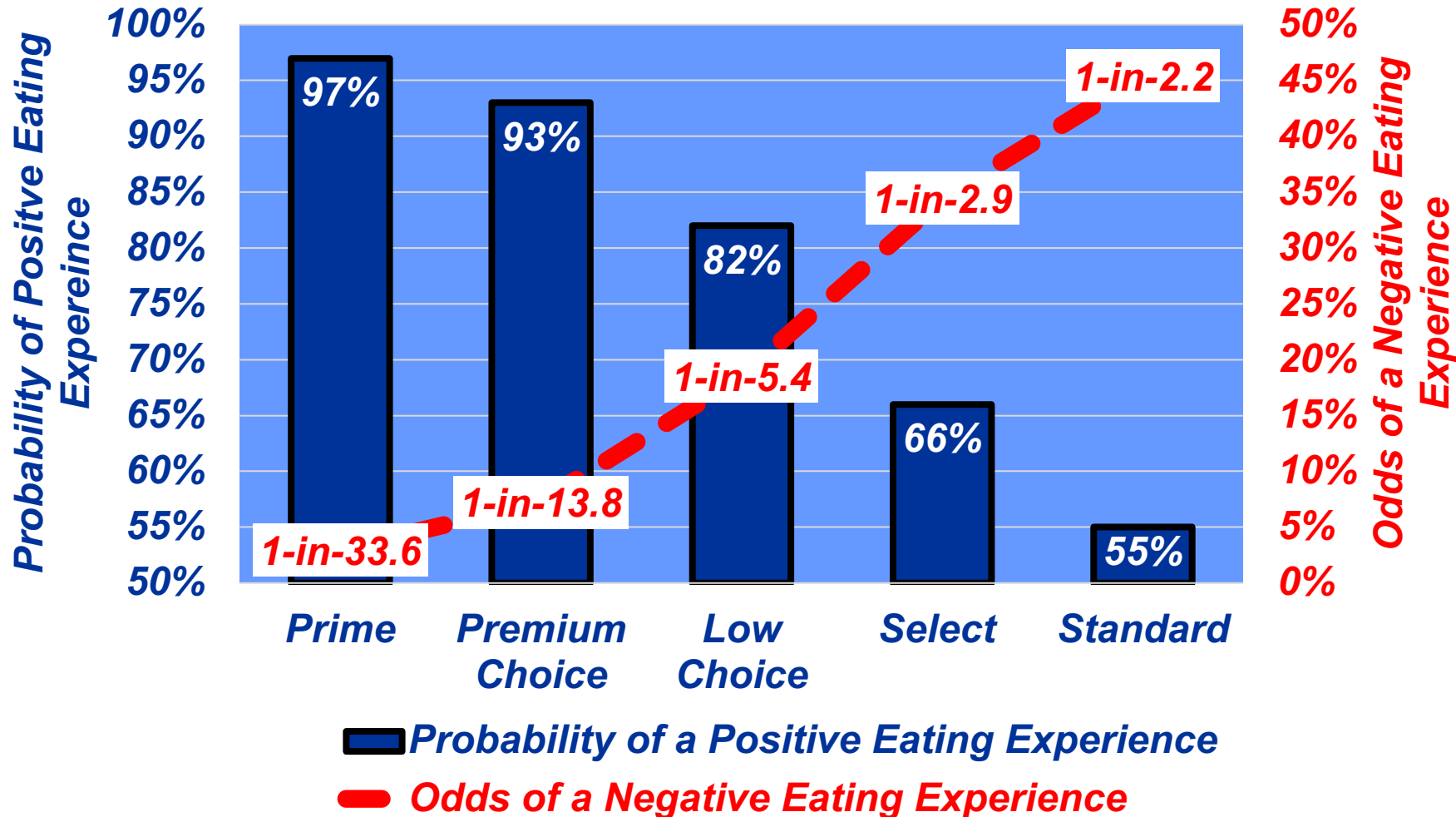


A photograph of a large group of brown cows in a feedlot, with the text "QUALITY = GAME CHANGER" overlaid in blue. The cows are lined up in a long concrete trough, and the scene is set in a large, open area with a clear sky in the background. The text is centered and written in a bold, sans-serif font.

**QUALITY =
GAME CHANGER**

Likelihood of Positive / Negative Eating Experience by Quality Grade (Strip Loin Steaks)

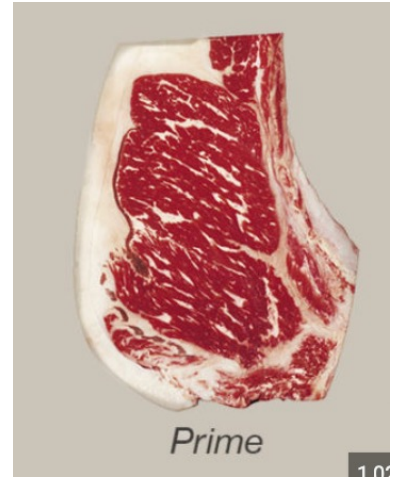
Source: Recent Trends: Beef Quality, Value and Price (Tatum 2015)



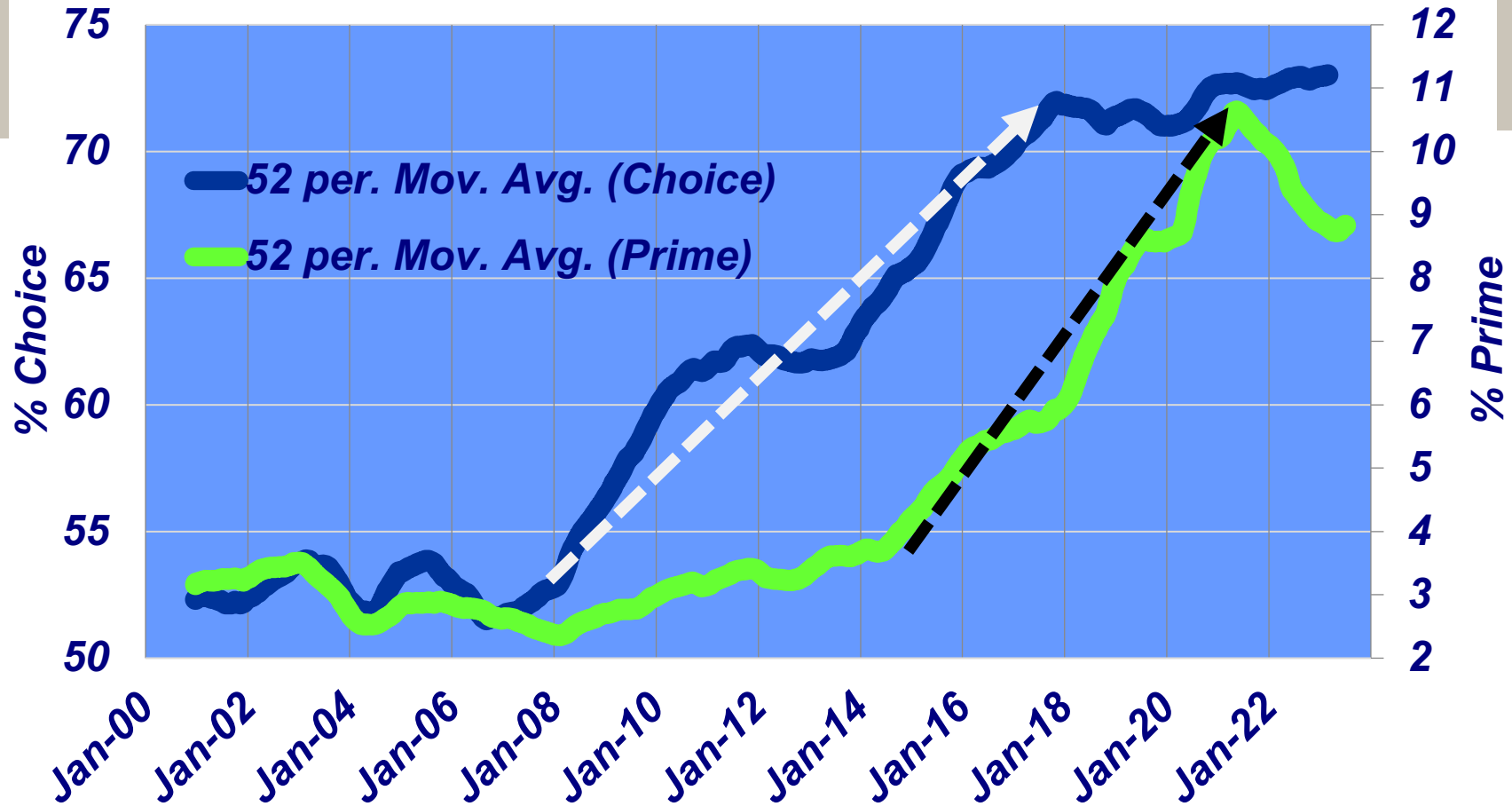


Choice

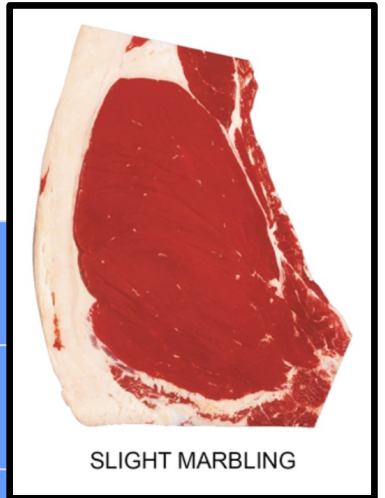
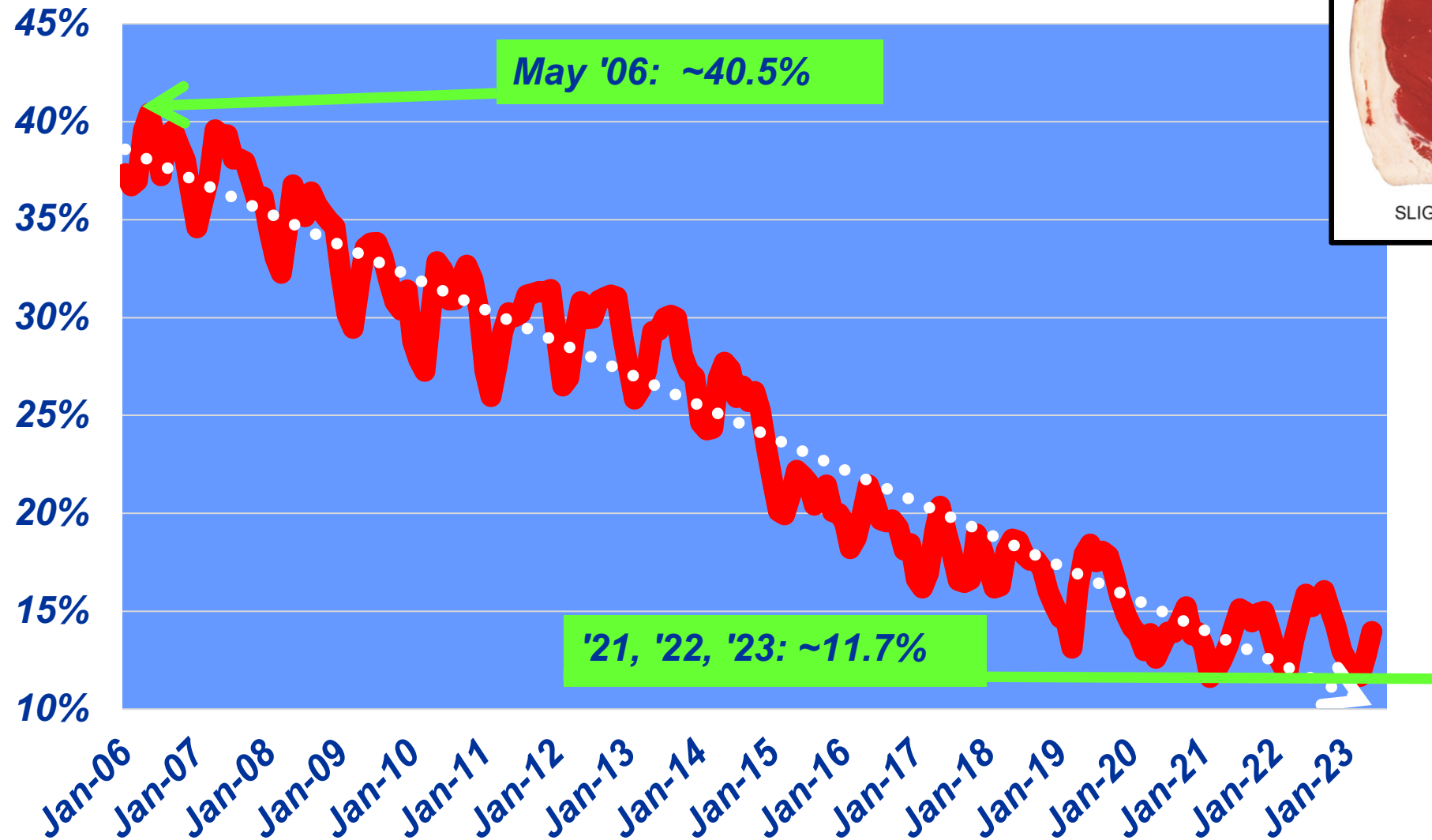
Weekly Slaughter Quality Grade Mix: % Choice and Prime 52-Week Moving Average Adapted from USDA:AMS (thru 1H23)



Prime



Select: % of Total Beef Sales (Monthly) Data Sourced from LMIC and USDA:AMS



NBQA '22: What Are Strengths of Steer / Heifer Industry?

Packer	Retail	Food Service	Further Processor	GTOs
Product Quality	Marketing Programs	Food Safety	Consistency	Product Quality
Food Safety	Taste	Product Quality	Product Quality	Lifestyle
Diversity of Supply	Product Quality	Taste	Food Safety	Food Safety
Efficiency	Consistency	Availability	Efficiency	Consistency of Supply
Marketing Programs	Lifestyle		Lifestyle	

Packer: “Genetics have improved beef quality”

Retailer: “[Beef industry] is able to make informed decisions to increase quality”

Speer: Marbling Is The Anchor

- **Tatum (2015):**

“...many quality conscious beef consumers are unwilling to pay today’s prices for the level of performance provided by commodity beef and,

instead, have opted to trade-up, purchasing premium beef products, thereby improving their odds of receiving a level of performance commensurate with the higher prices they are required to pay.”

- **Midan (2022):**

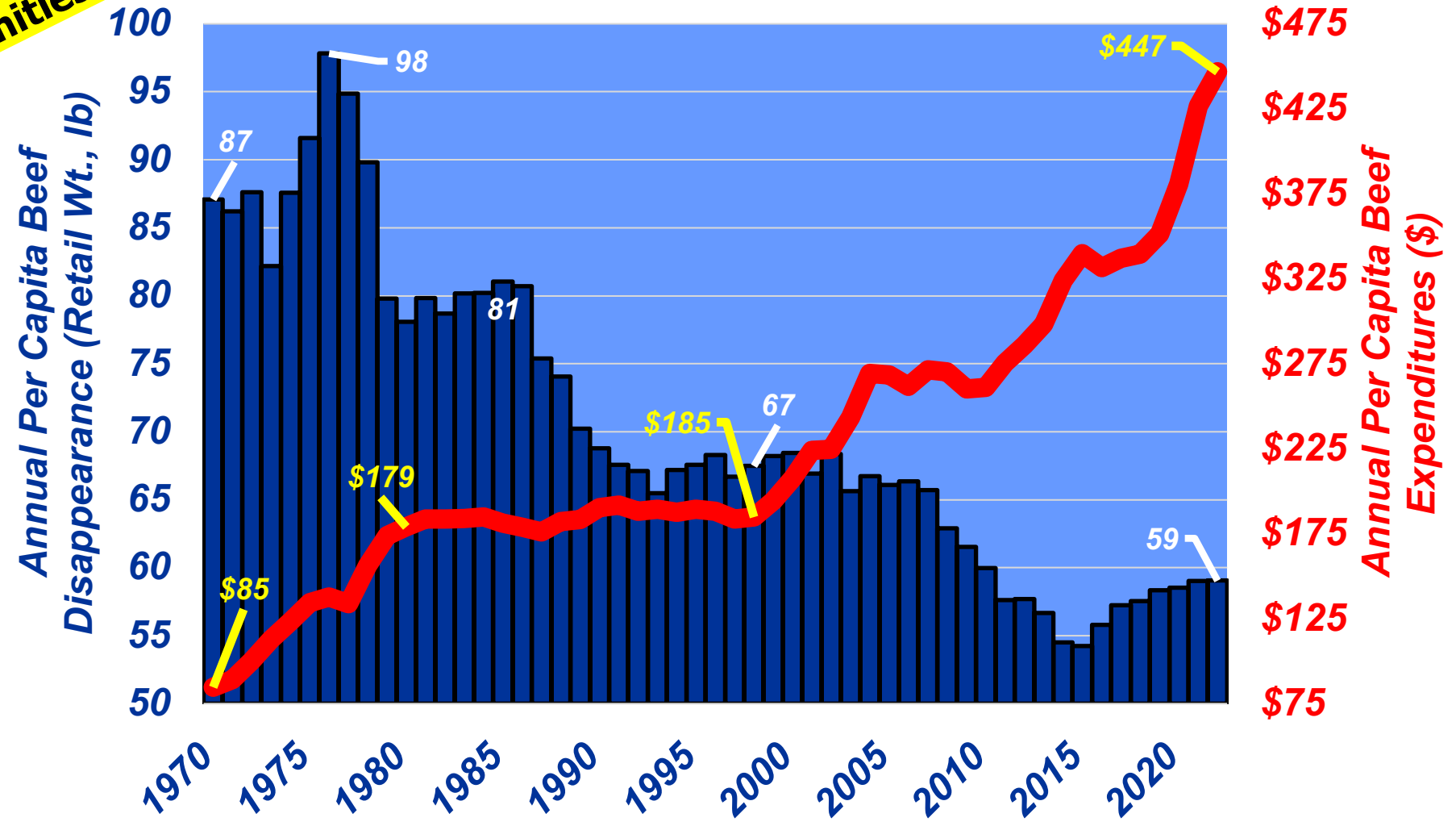
72% can’t imagine giving up the taste of beef

62% purchase premium beef



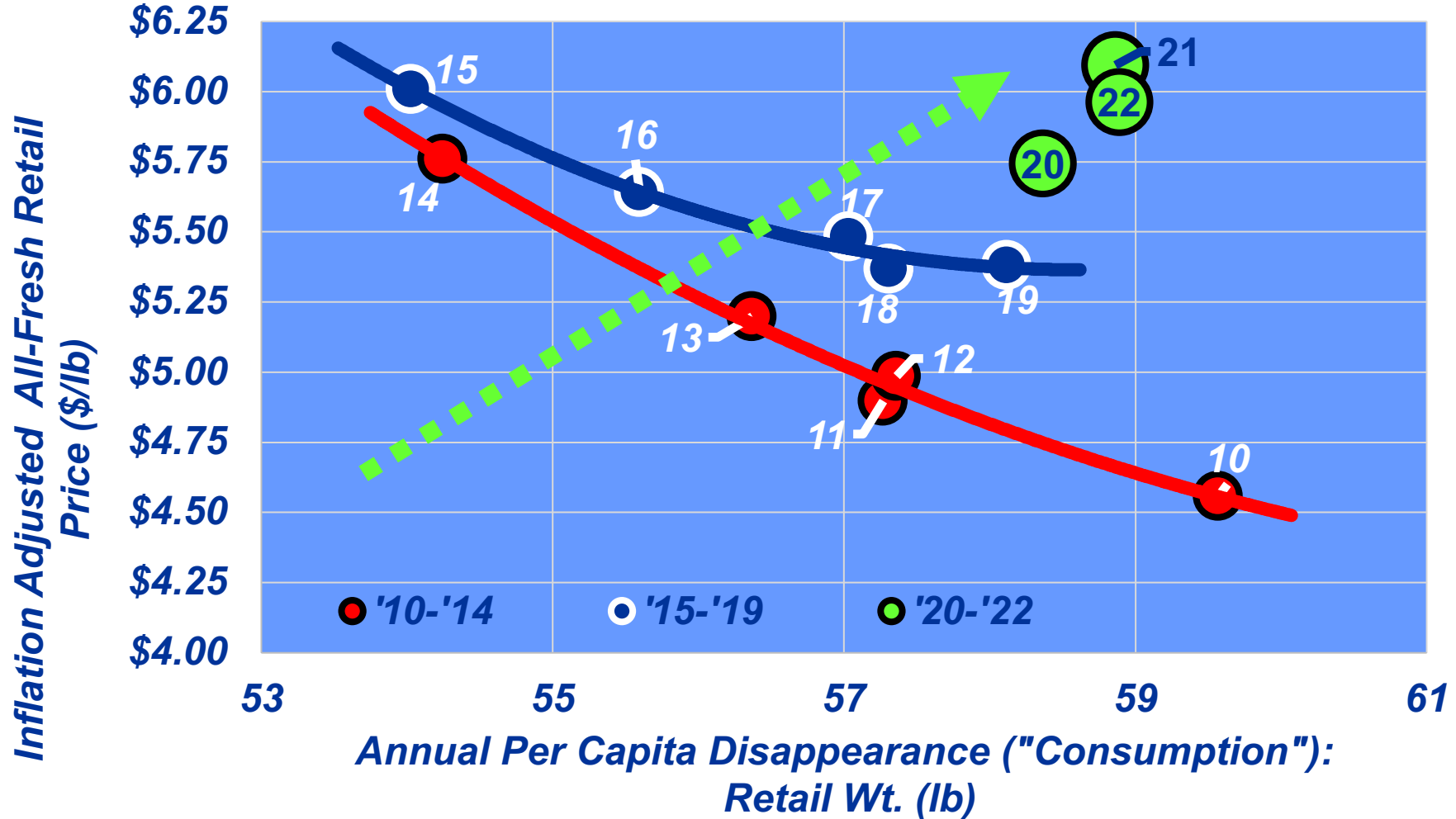
Cumulative Disappearance (Retail Wt) and Spending Adapted from USDA/LMIC

**No revenue growth =
No new opportunities!**



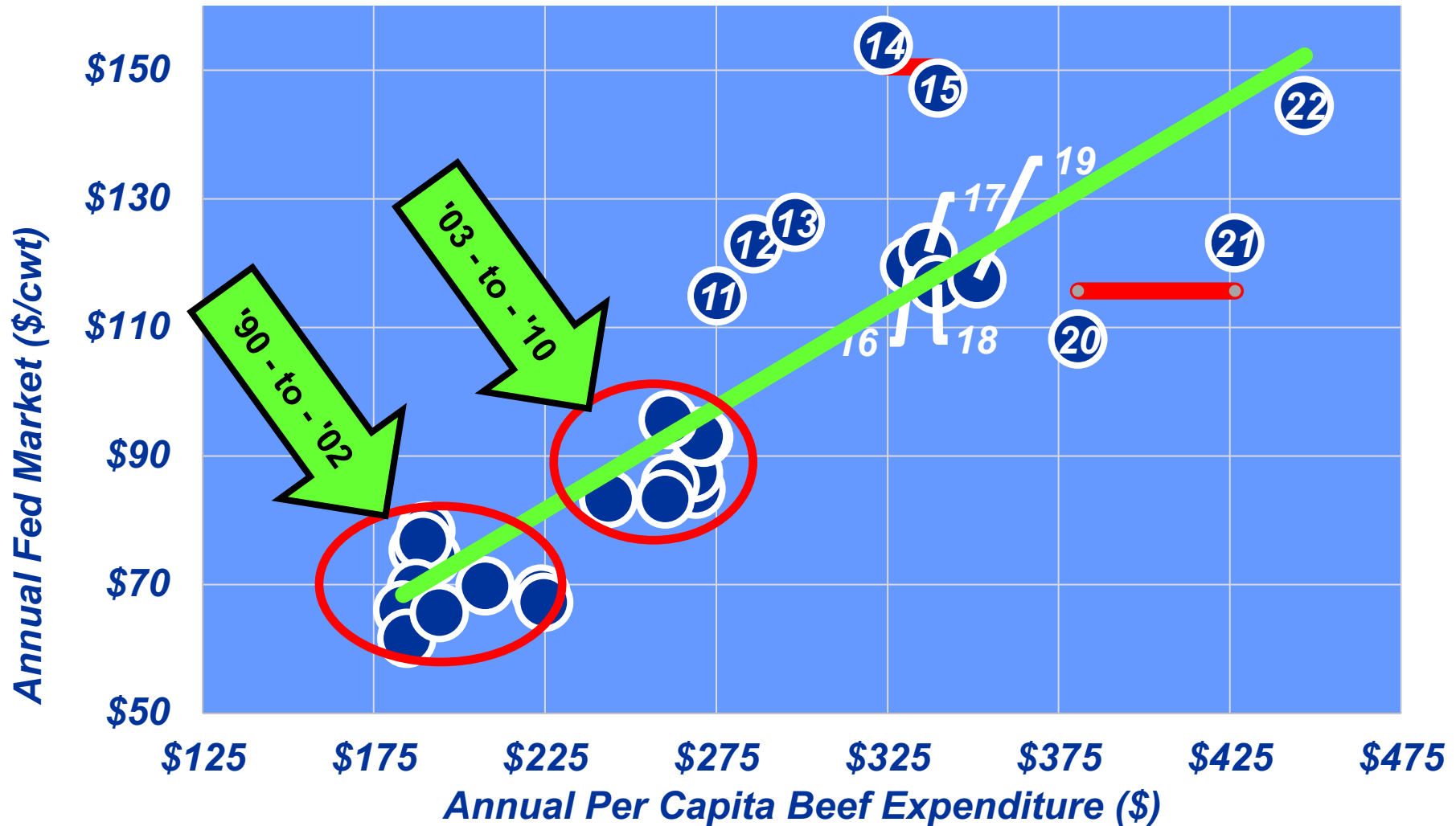
Beef Price Vs Quantity Inflation Adjusted (GDP Deflator 2012 = 100)

Data Sourced from LMIC (updated 7/15/23)



Annual Fed Market (\$/cwt) and Annual Per Capita Beef Expenditure (\$)

$r_{xy} = .86$
1990-thru-2022, Data Sourced from LMIC

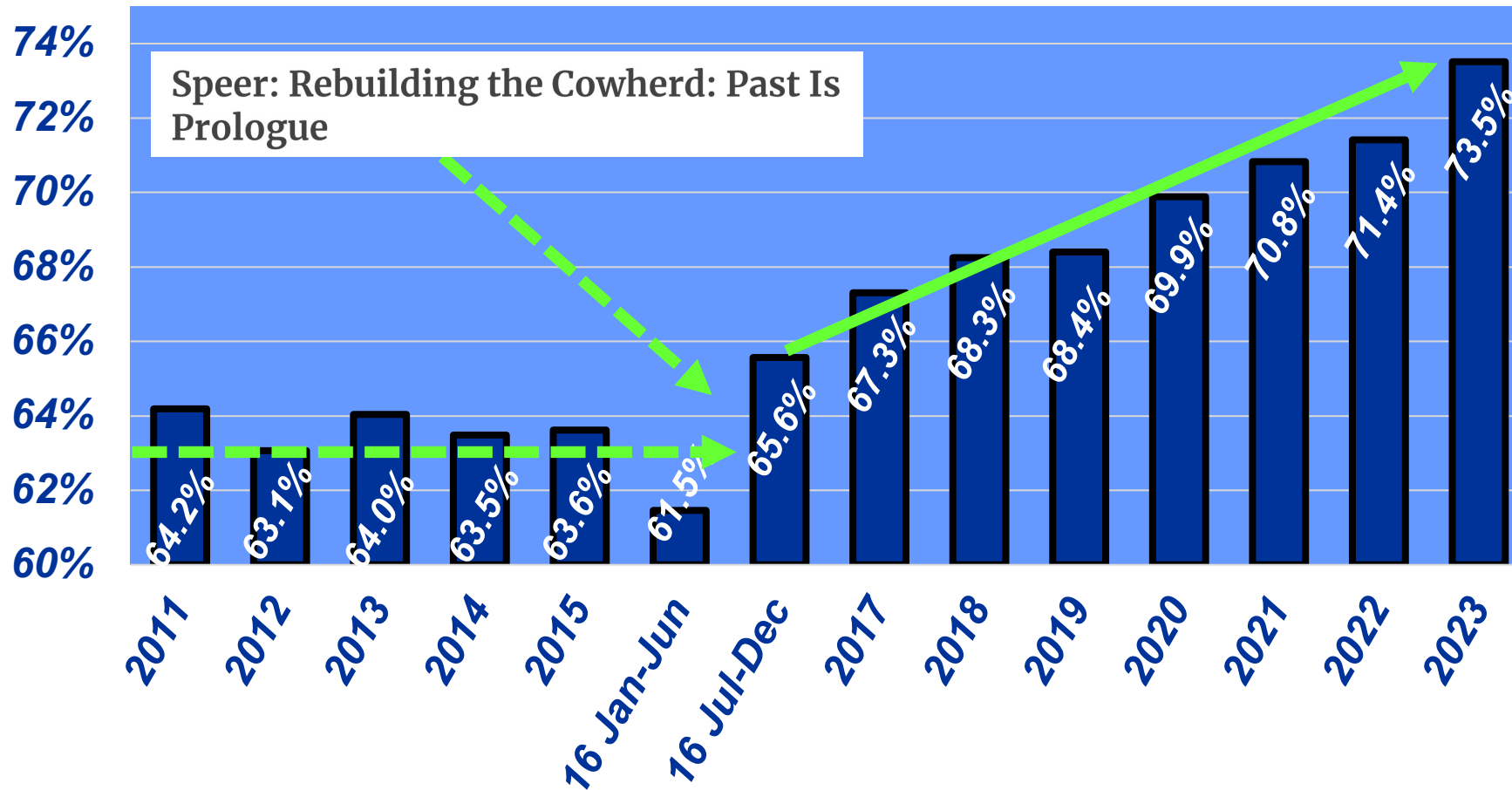


GENETICS

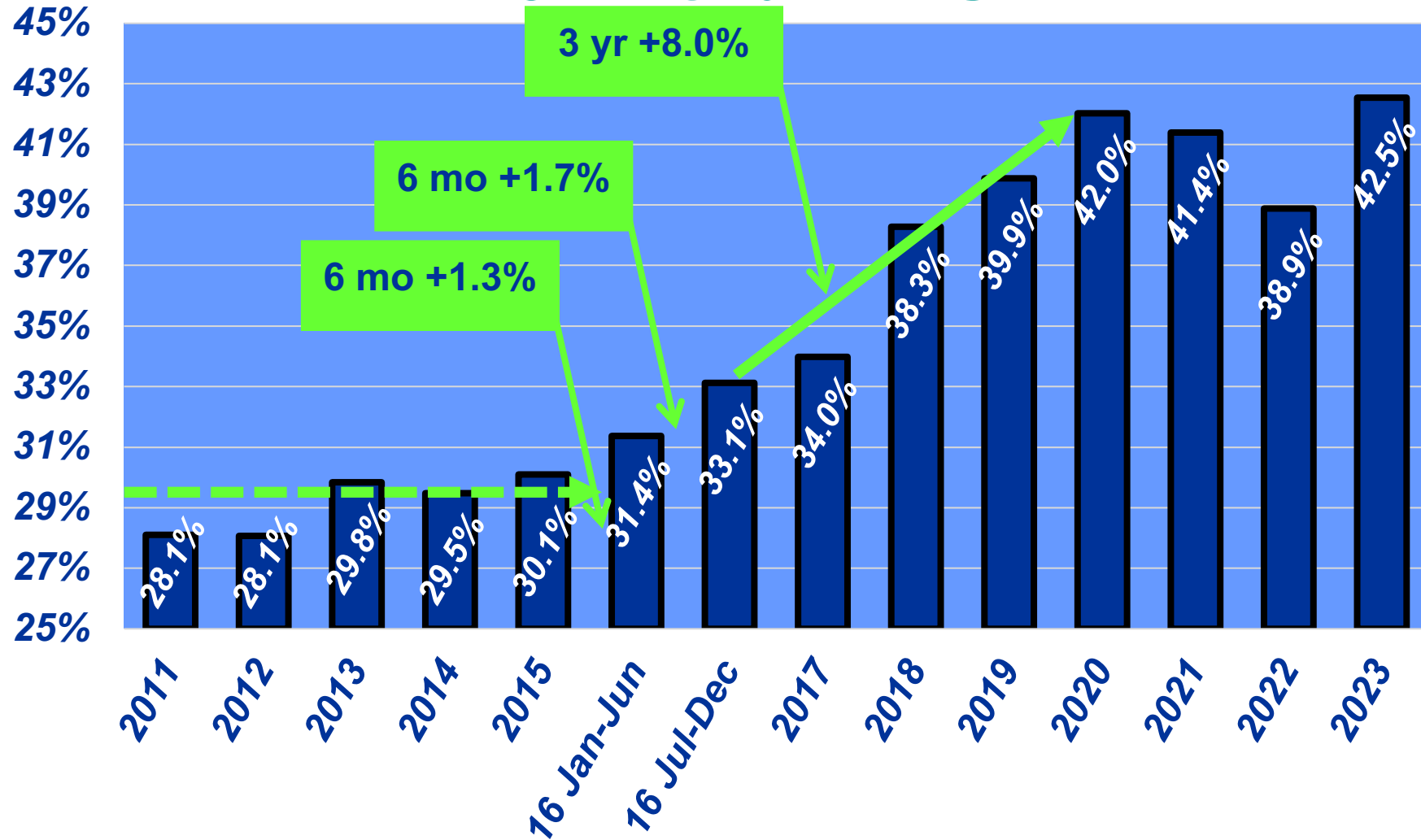


Annual Average: Cattle Qualifying for Angus Certified Programs Schedule GLA ("A Stamp")

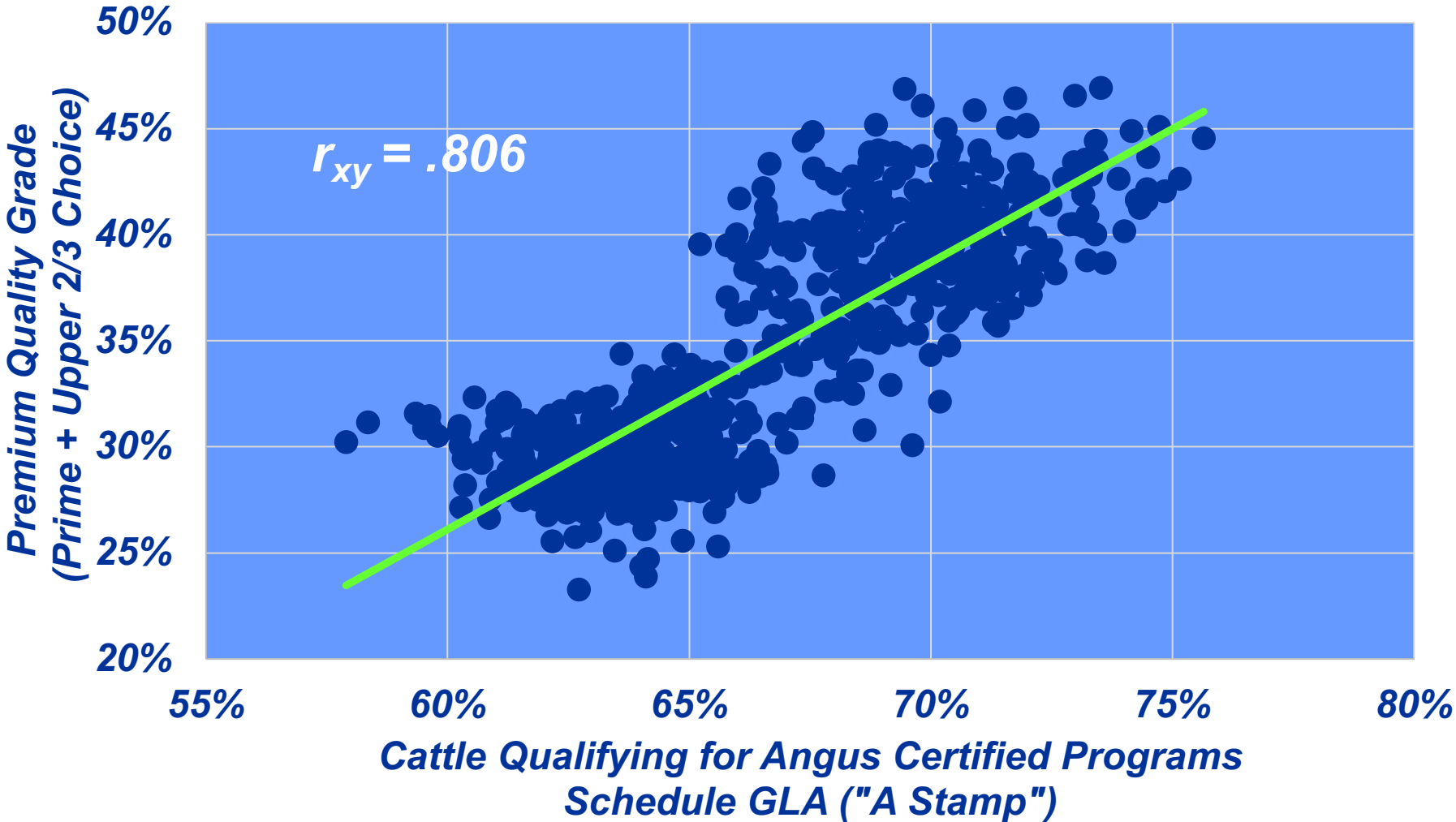
Data Sourced from USDA:AMS
2011 – thru – 1H23



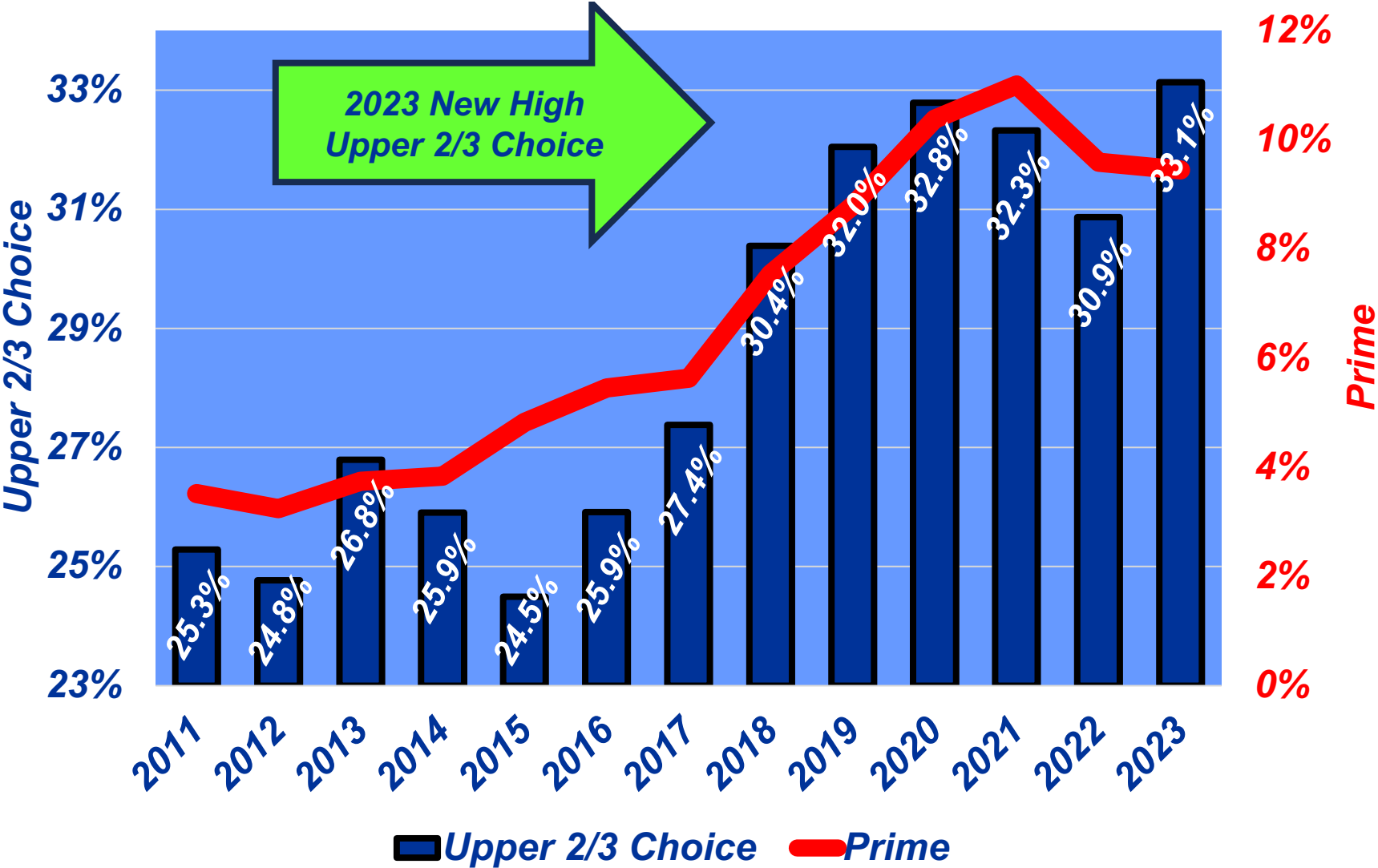
% Premium Quality Grade Prime + Upper 2/3 Choice Data Sourced from USDA:AMS 2011 – thru – 1H23



**Premium Quality Grade vs Cattle
Qualifying for Schedule GLA
Data Sourced from USDA:AMS
2011 – thru – 1H23**



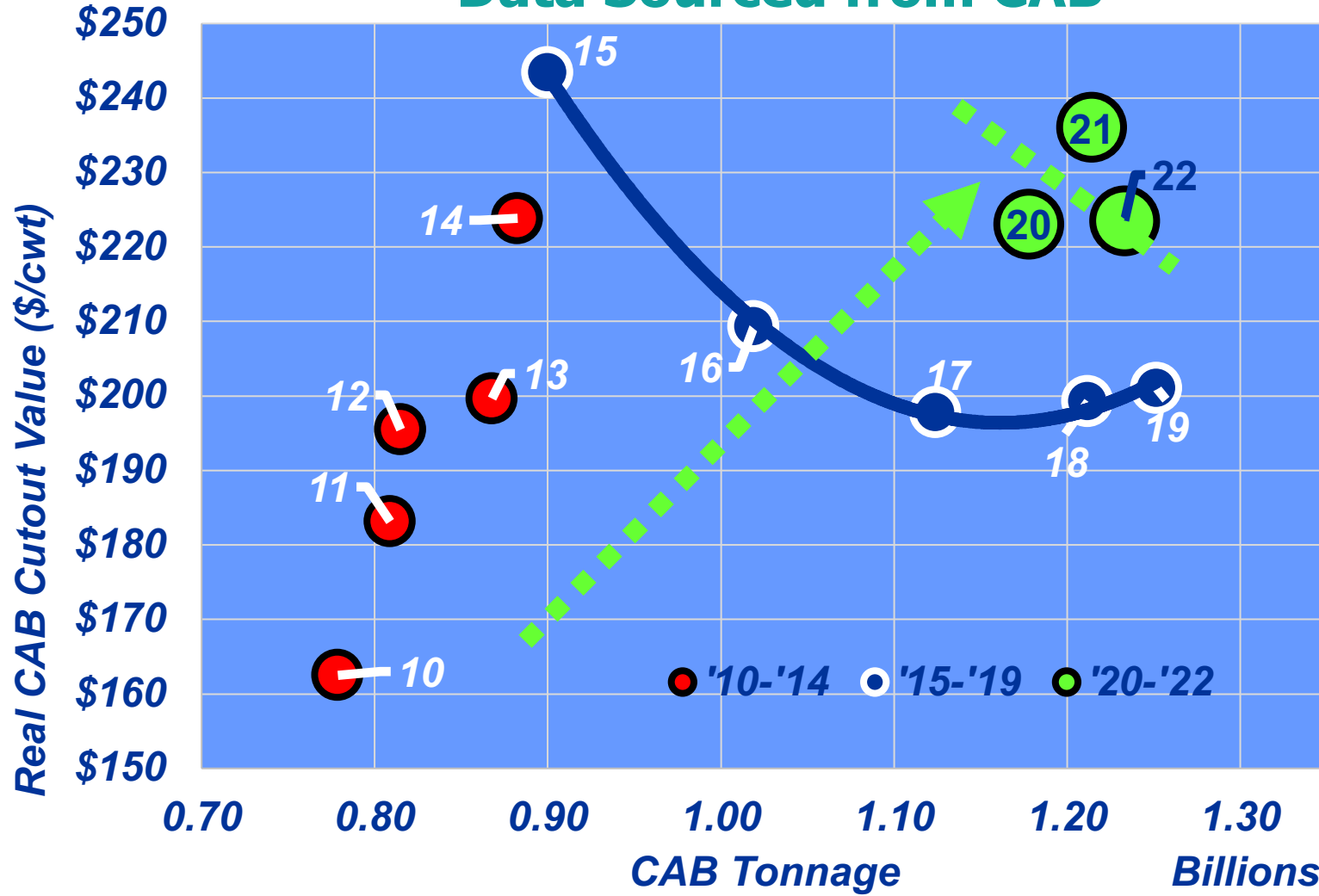
Jan-Jun Yearly Average % Prime and Upper 2/3 Choice Data Sourced From USDA:AMS



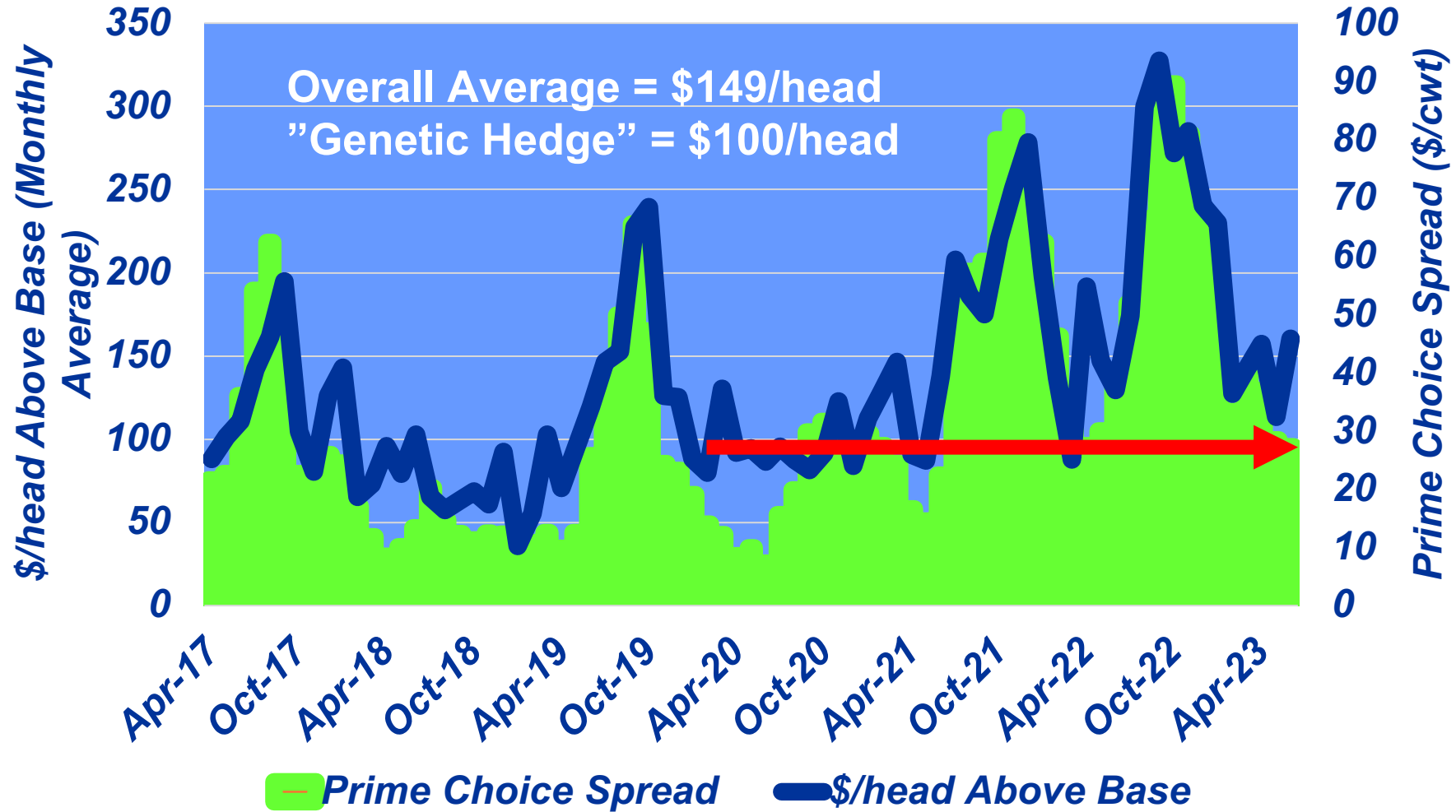
CAB Cutout Value vs. Tonnage (Fiscal Year)

Prices Inflation Adjusted (GDP Deflator 2012 = 100)

Data Sourced from CAB



Gardiner Angus Ranch Genetics (18,368 head)
USPB Grid: \$/head above base
Monthly Average and Prime/Choice Spread
Correlation = .90 (Apr '17 thru June '23)



VALUE LEAKS



BRD

The Importance of Preventing Bovine Respiratory Disease: A Beef Industry Review

N.C. Speer, PhD¹; C. Young, DVM²; D. Roeber, MS³

¹Department of Agriculture, Western Kentucky University, One Big Red Way, Bowling Green, KY 42101

²Kentucky Department of Agriculture, c/o WKU Department of Agriculture, One Big Red Way, Bowling Green, KY 42101

³Department of Animal Sciences, Colorado State University, Fort Collins, CO 80523

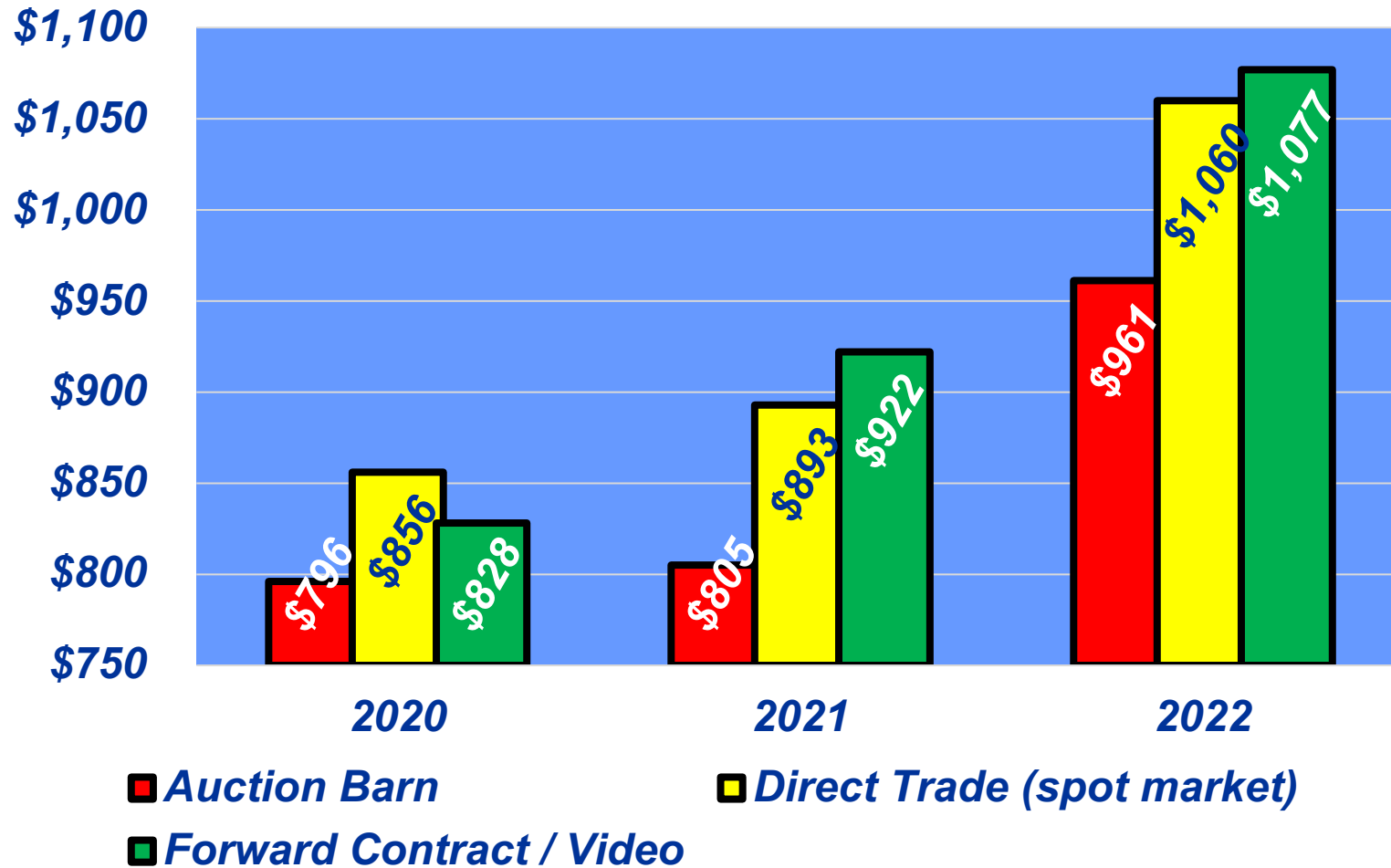
- **Wittum et al (1996)**
 - **35% of steers treated for BRD**
 - **72% had lung lesions at slaughter**
- **Gardner et al (1999)**
 - **33% of steers had lung lesions at slaughter**
 - **Equally distributed among cattle treated for BRD and those not treated**

Net Returns: "Sick" vs "Healthy" TAMURR
Adapted from TAMU Ranch to Rail and Cattle-Fax
Market = mid-April to mid-June Average
Market / Delta $r_{xy} = .88$

	---Net Return (\$/head)---			
Year	"Sick" n=4,166	"Healthy" n=12,839	Difference	Market (\$/cwt)
93-94	(86.38)	2.17	88.55	67.61
94-95	26.14	75.69	49.55	64.81
95-96	(63.02)	(3.40)	59.62	59.77
96-97	(5.23)	112.19	117.42	66.60
97-98	(101.57)	(36.18)	65.39	64.56
98-99	.70	80.82	80.12	65.28
99-00	23.31	146.17	122.86	71.12
00-01	23.43	174.61	151.18	75.36
Average	(36.25)	59.83	wtd = \$96.08	66.89

Average Calf Value By Marketing Venue

Source: Cattle-Fax Cow-Calf Survey
Trends+ Webinar (5/24/23)



Independence / Anonymity
What value does that deliver?





LOOKING AHEAD
Consumers ARE THE
Business!

General Customer Demands

James Womack and Daniel Jones: Lean Solutions: How Companies and Customers Can Create Value and Wealth Together, c. 2005

1. Solve my problem completely
2. Don't waste my time
3. Provide exactly what I want
4. Deliver value where I want it
5. Supply value when I want it
6. Reduce the number of decisions I must make!!



Demand:

- Population
- Income
- Tastes / Preferences
- Price of other goods
- Expectations

Beef:

- Health
- Convenience
- Quality /Taste
- Price / value
- Others

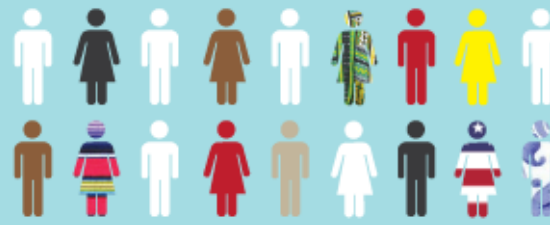
MILLENNIALS

WHO ARE MILLENNIALS?



"GEN Y"

80 MILLION IN THE U.S.



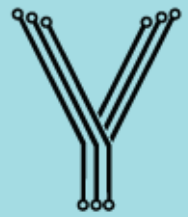
LARGEST GENERATION YET

2.5 BILLION WORLDWIDE

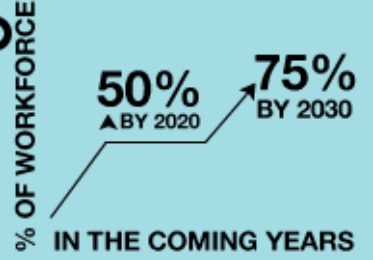
MOST ETHNICALLY & RACIALLY DIVERSE



DOMINANCE OF SOCIAL NETWORKS



DO THEY MATTER?



MAKE A DIFFERENCE W/ THEIR WORK



CONFIDENT
HAVE HIGH EXPECTATIONS
ACHIEVEMENT ORIENTED

Image from Why Millennials Matter (www.whymillennialsmatter.com)

Market Segmentation Increasingly Complex

- Palatability / eating satisfaction
- Health / wellness attributes
- Food safety
- Convenience
- Brand recognition
- Consistency
- Low price / high value
- Personalized shopping experience
- Sustainability
- Animal welfare
- Planet
- Social responsibility
- Others



Flexitarian peaks among Millennials – trends towards higher-income consumers

Power of Meat 2023 "Better-for" Decisions

**POWER
OF MEAT** 2023

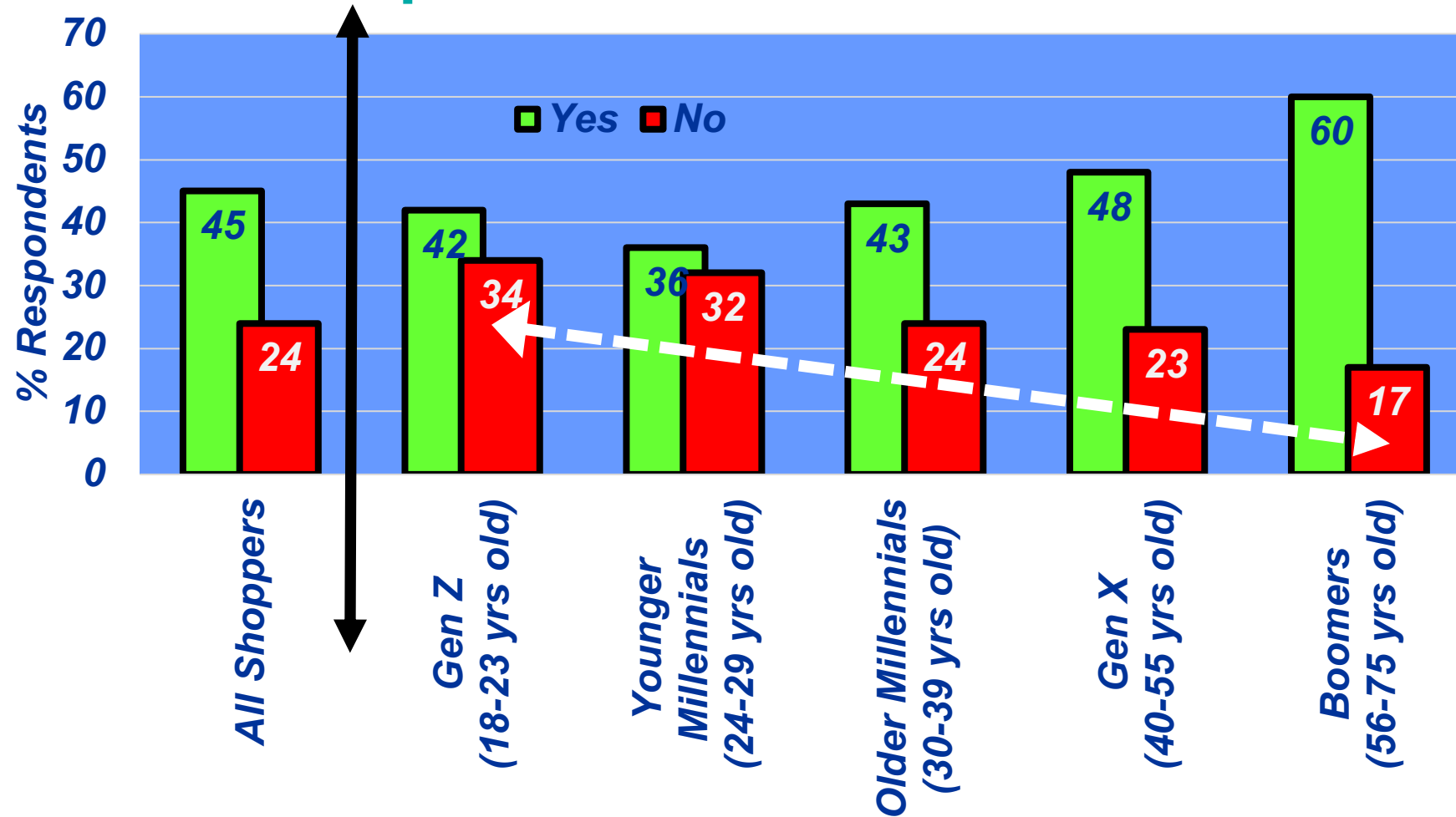
AN IN-DEPTH LOOK AT THE
MEAT DEPARTMENT THROUGH
THE SHOPPERS' EYES

Level of Agreement with food/meat attitudes

	2023	Meat Eaters	Flexitarians
I try to do my part for the environment, such as sustainable food choices, recycling, etc...	52%	49%	64%
I made an effort to buy from companies that care about worker safety and welfare	51%	47%	60%
I make an effort to buy from companies that care about animal welfare	49%	47%	59%

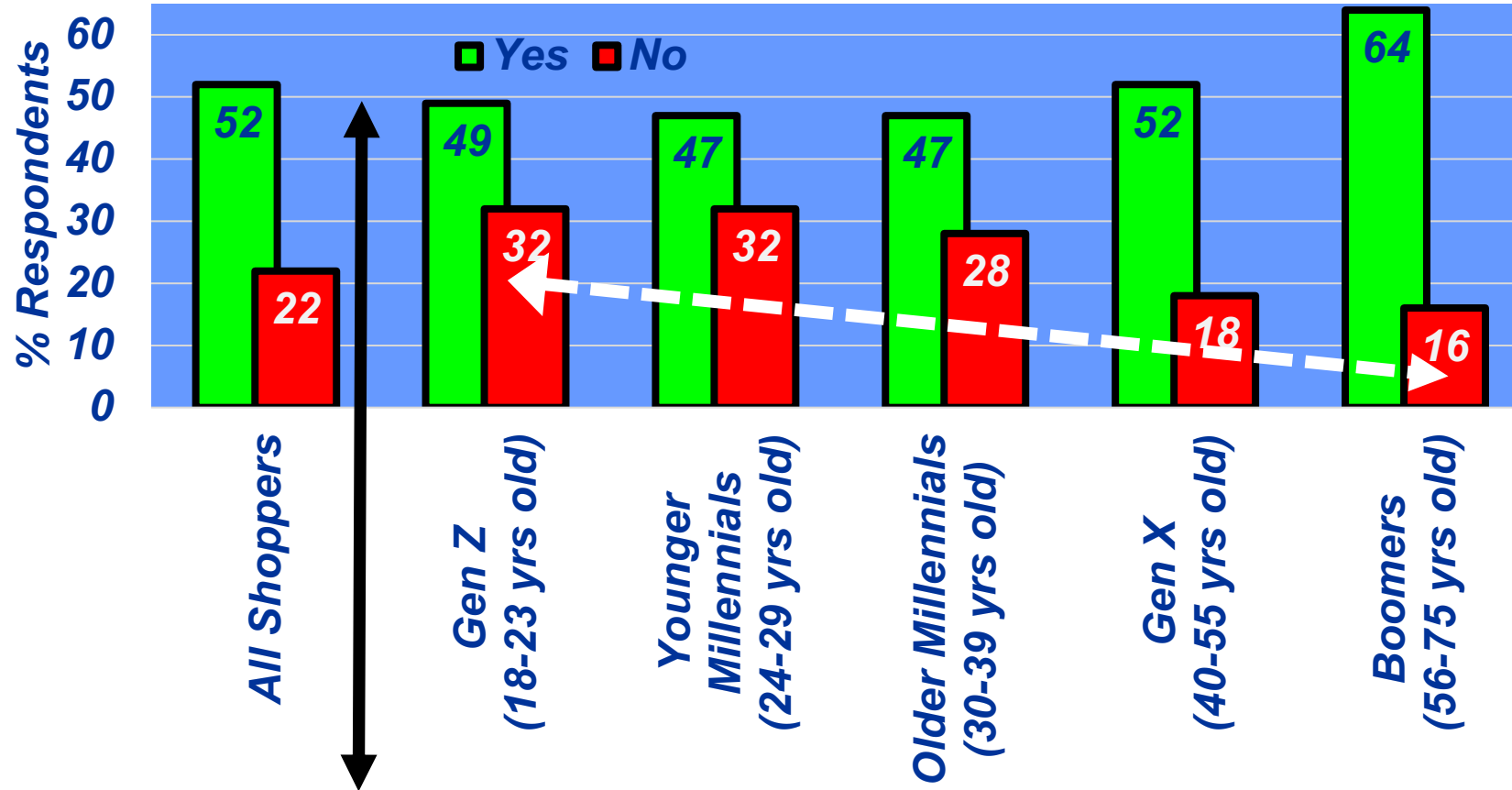
Meat / Poultry Brands Are Committed to Planet Health and Sustainable Production

Percent Respondents: Yes vs No
Adapted from Power of Meat 2023[©]



Animal Welfare for Livestock Raised in the U.S. is Good (Sufficient / Satisfactory)

Percent Respondents: Yes vs No
Adapted from Power of Meat 2023[©]



NBQA '22: Potential Threats to Steer / Heifer Industry?

Packer	Retail	Food Service	Further Processor	GTOs
Labor Shortages	Cyber Security	Environmental Concerns	Environmental concerns	Environmental Concerns
Environmental Concerns	Misleading Labels	Labor shortages	Activist	Public Perceptions
Activists	Conglomeration	Lack of Consumer Education	Federal Regulations	Activists
Animal Disease	Federal Regulations	Activists		Animal Disease
Federal Regulations				Federal Regulations

Food Service: “Living in the past / unwilling to discuss hard topics.”

**RIGHT FOCUS =
RIGHT RESULTS!**



NEW OPPORTUNITIES / NEW THINKING



One of the greatest pains to human nature is the pain of a new idea...It makes you think that after all, your favorite notions may be wrong, your firmest beliefs ill-founded.
Walter Bagehot, 1872

What Do You See?



Customer-Centric Thinking: Reverse Traditional Value Chain

Commodity
Focus

- **Traditional Approach = Commodity Orientation:**
 - Top-down: start with production
 - Unresponsive to consumer!
- **Consumer-centric Approach = Value-Added Focus**
 - Bottom-up: start with the customer
 - Then adapt the value chain around:

Value-Added
Focus

- **Quality**
- **Consistency**
- **Transparency**
- **Efficiency**
- **Volume**



Solution vs Product Marketing
Consumption vs. Demand
LGS: “Chicken = Protein Delivery Device”

- **Product = Commodity orientation**
 - **It's there because it's cheap / available**
- **Solution = End-product orientation**
 - **Why is it on the plate?**
 - **Base requirements of production:**
 - **Taste, consistency, quality, wholesome, safe**
 - **Value +**
 - **Brand trust / transparency**
 - **Animal welfare, environmental concerns, antibiotics, other credence attributes**
 - **Experience!!!!!!**



**Start with why.
(What's your why?)**

Two stonemasons – “Do you like your job?”

Both respond like this:

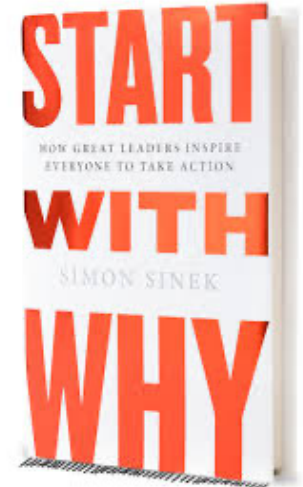
“I’ve been building this wall for as long as I can remember.

The work is monotonous.

I work in the scorching hot sun all day.

**The stones are heavy and lifting them day after day can be
backbreaking.**

**I’m not even sure if this project will be completed in my
lifetime.”**

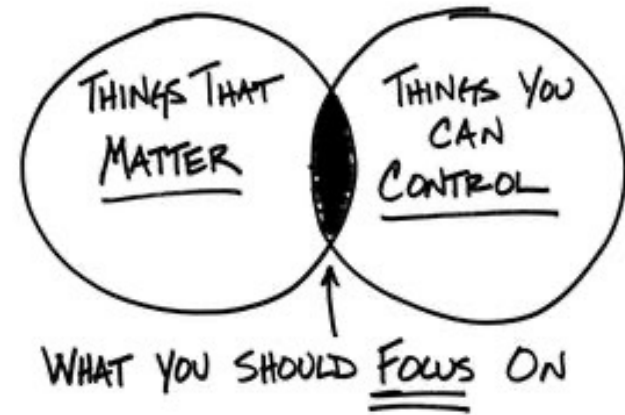


But it's a job. It pays the bills.”

But I'm building a cathedral.”

Don't Be Distracted A Matter Of Perspective!!

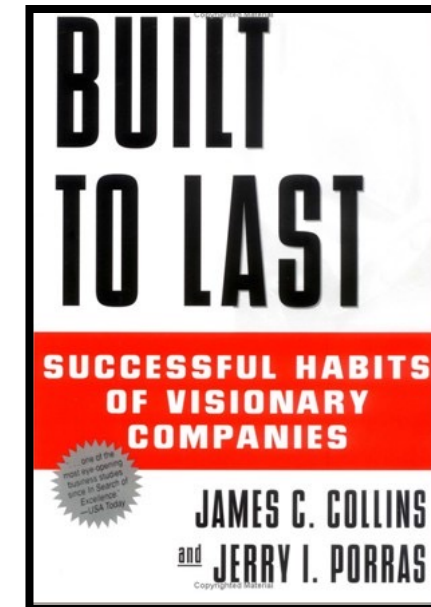
- **What's the market going to be?**
 - **Doing what we've always done**
 - **Makes us susceptible to short-term shocks**
 - **"Things that have never happened before h. the time" (Scott Sagan, Stanford Univ)**
- **Things that matter, that you can control:**
 - **What are you measuring?**
 - **How are you adjusting?**
 - **How are you connecting the dots?**
 - **What's the business environment signaling?**
 - **Where do new opportunities lie?**
 - **How will we construct our business decisions around those signals?**
 - **"Think less about producing and more about producing into something." (John Stika, CEO, CAB)**



PRESERVE THE CORE / STIMULATE PROGRESS

If a [company or industry] is to meet the challenges of a changing world, it must be prepared to change everything about itself except [its basic] beliefs...

The only sacred cow in an organization should be its basic philosophy of doing business.



A wide-angle photograph of a herd of black cows grazing in a vast, golden field under a bright sky. The cows are scattered across the field, with some in the foreground and others in the distance. The grass is a rich, warm yellow, suggesting late autumn or early morning light. The overall scene is peaceful and expansive.

Thank you!

I have observed that setting a goal makes no appeal to the mediocre. But to those fired with an ambition really to achieve greatly, setting a goal becomes a program that stirs the inner soul to action.

William Danforth