Megatrends Driving the Future of the Beef Business: Producer Perspective

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Two major and related developments:

- Change in structure that drives how pricing is done
- Trends and change in the demand for beef

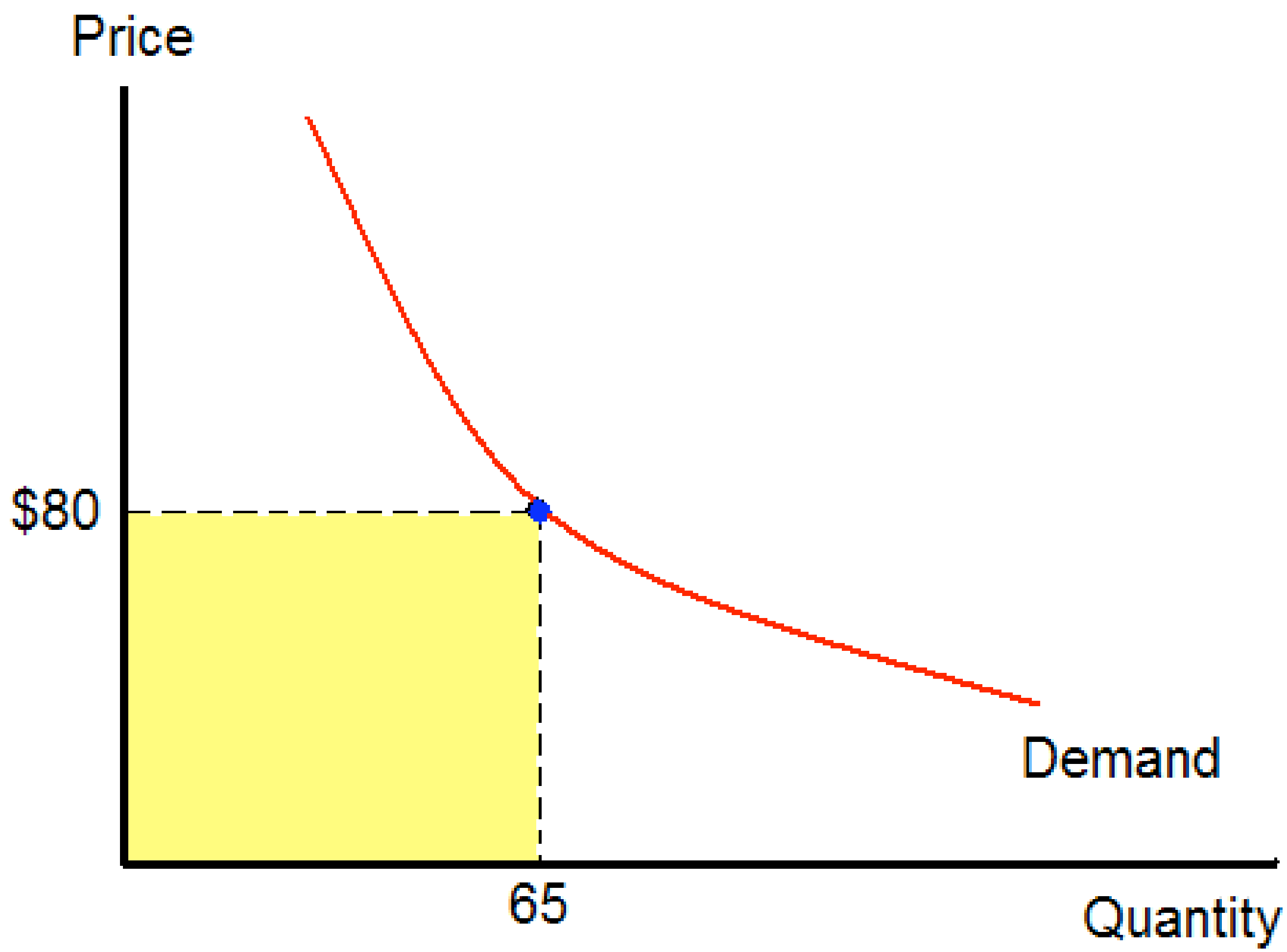
Demand is ***not*** per capita consumption!

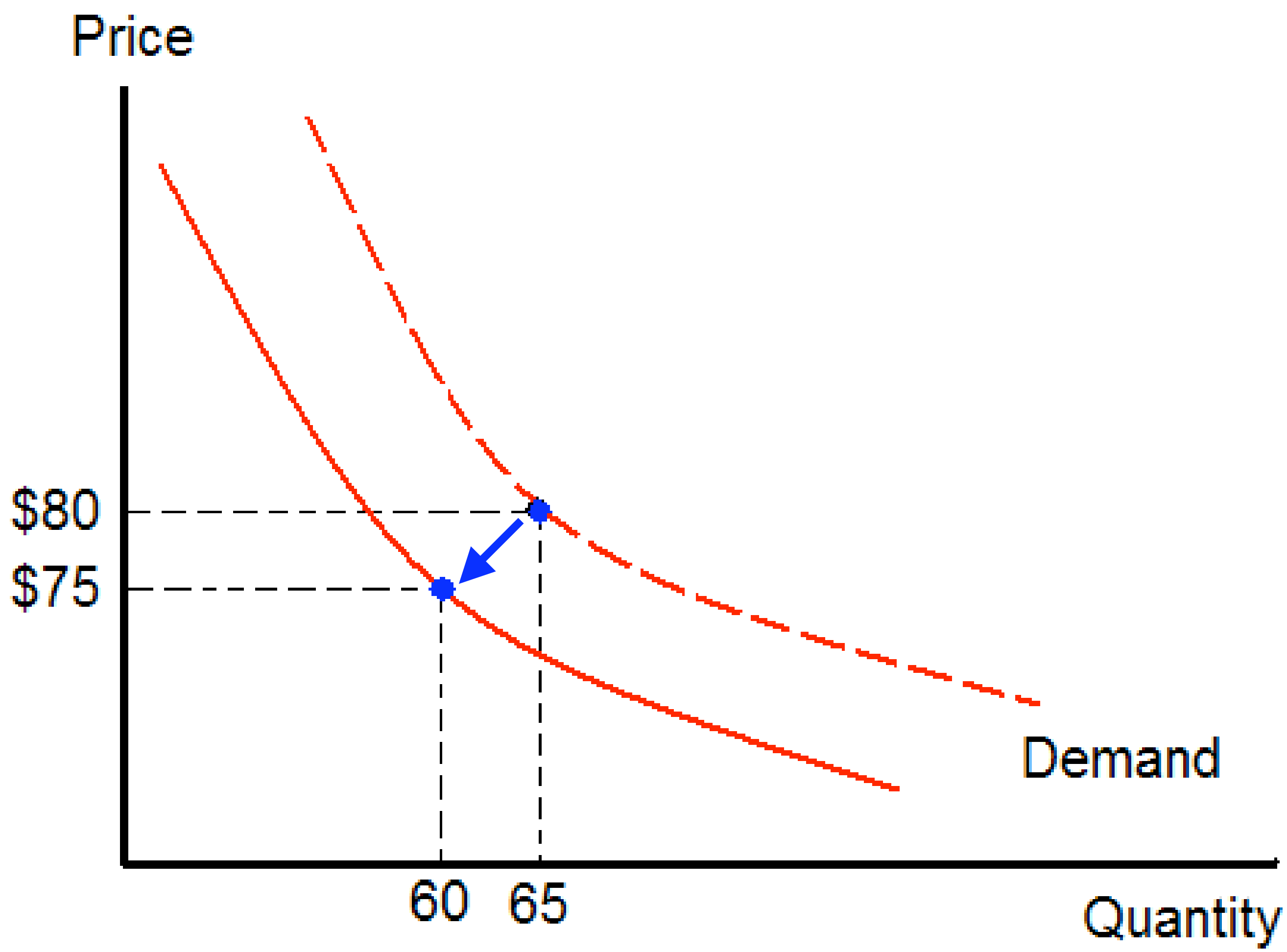
Demand has to take into account quantity consumed ***and*** prices paid by consumers.

The ***KEY*** is consumers' willingness to pay.

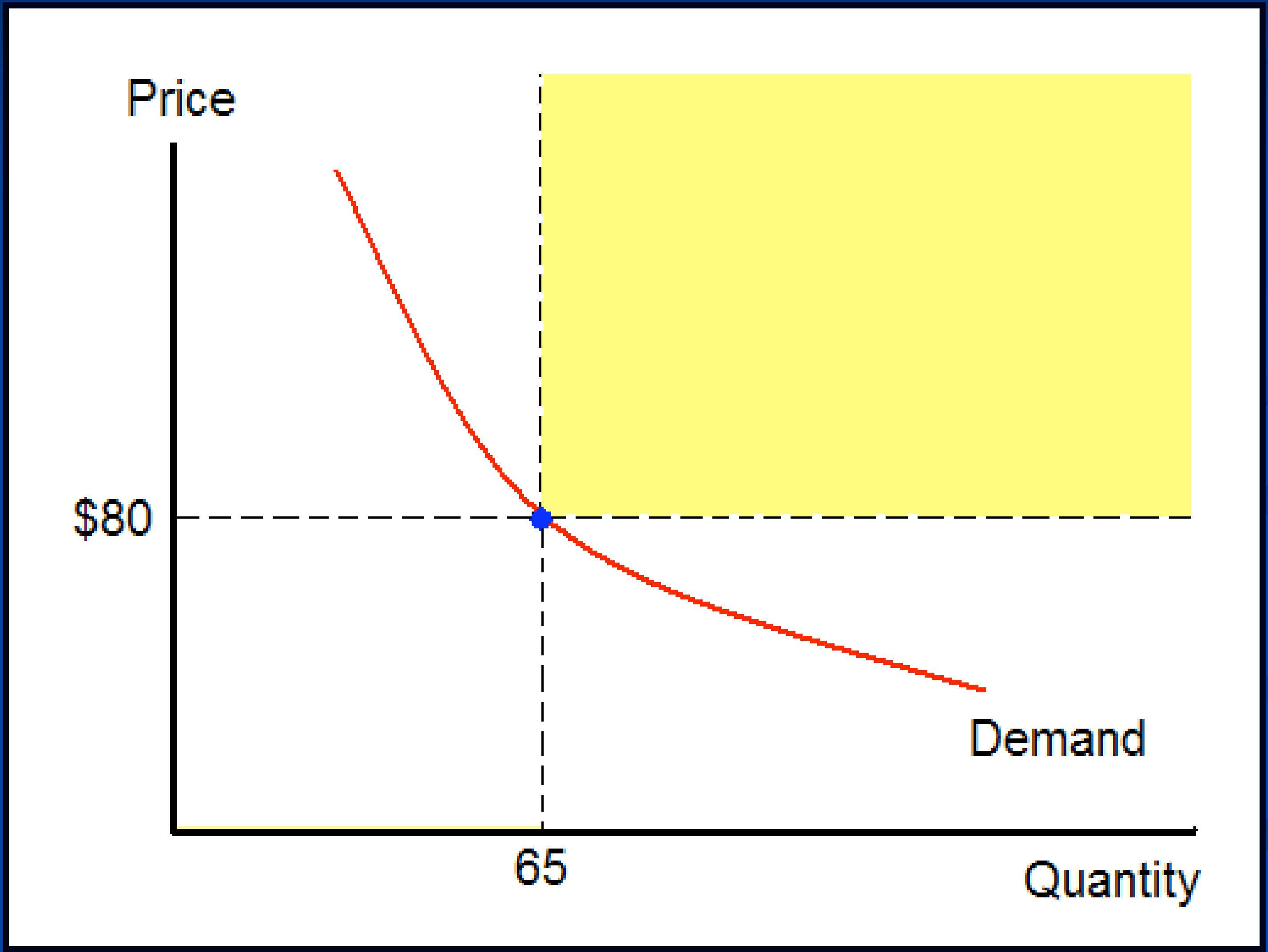
Let’s set up a framework to see what has been happening to your industry since about 1980…

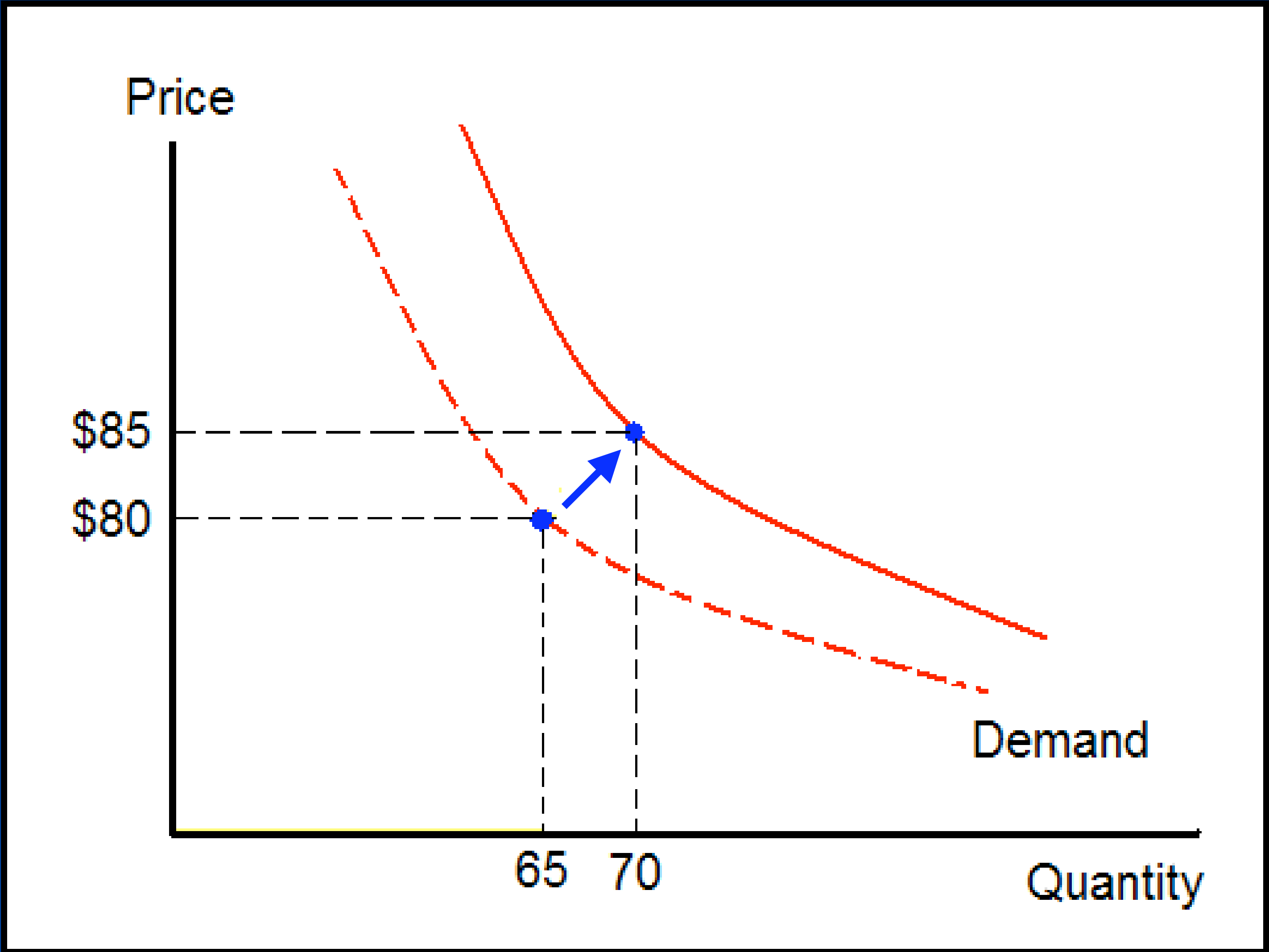
We know that demand is decreasing when price and quantity are both decreasing .


Price
$80
Demand
65
Quantity


Price
$80
$75
60
65
Demand
Quantity

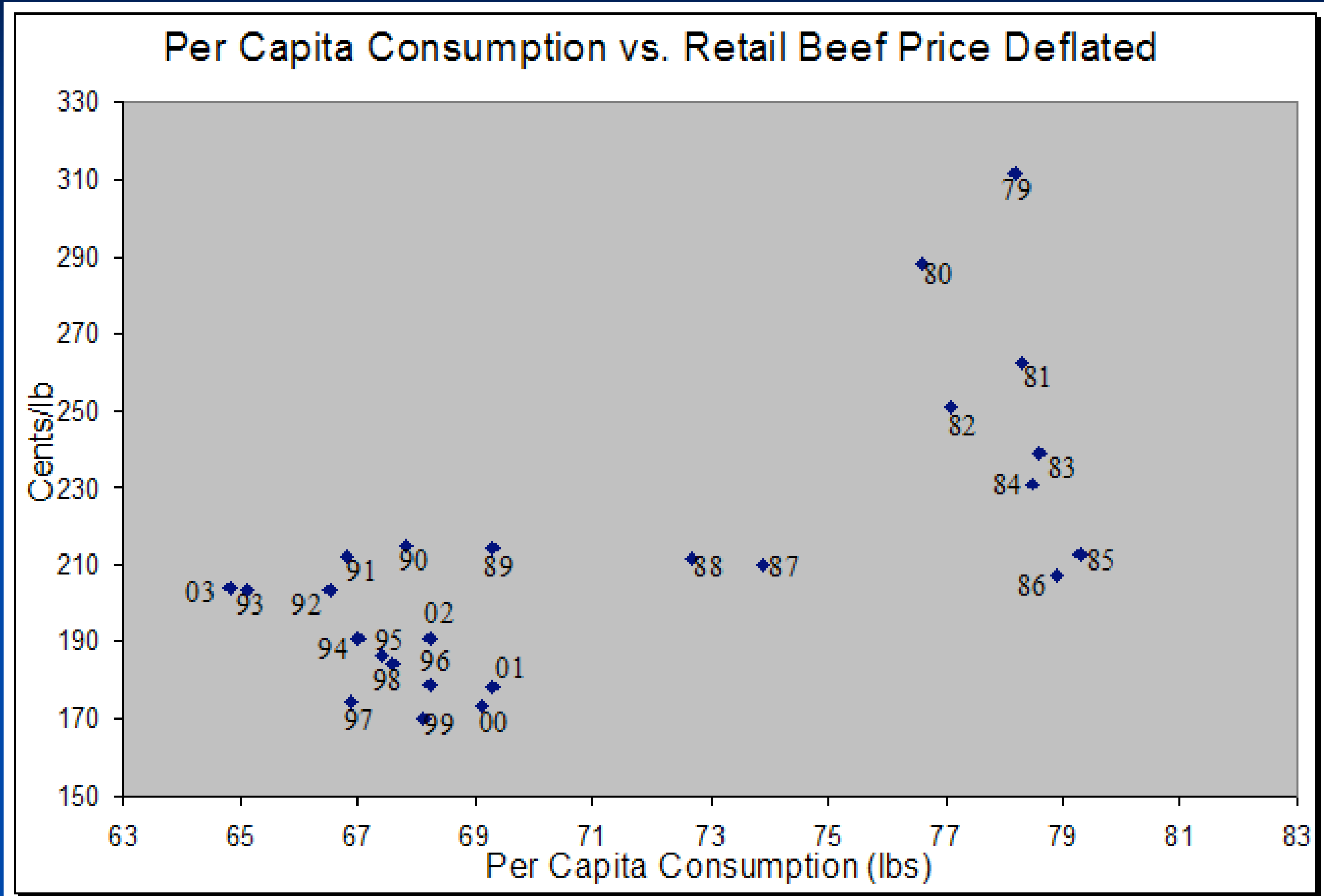
Demand is increasing when both price and quantity consumed increase.

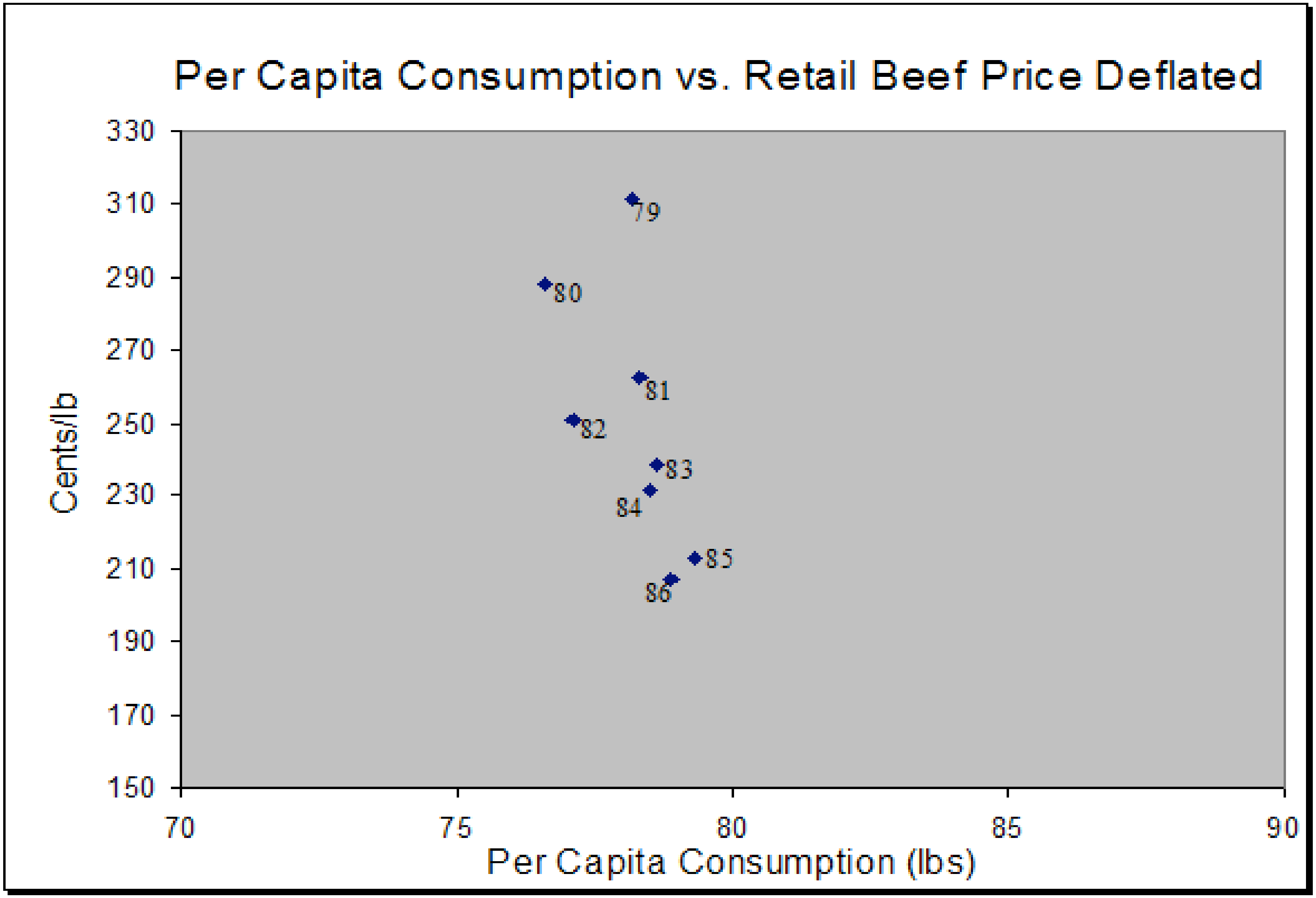

Price
$80
Demand
65
Quantity



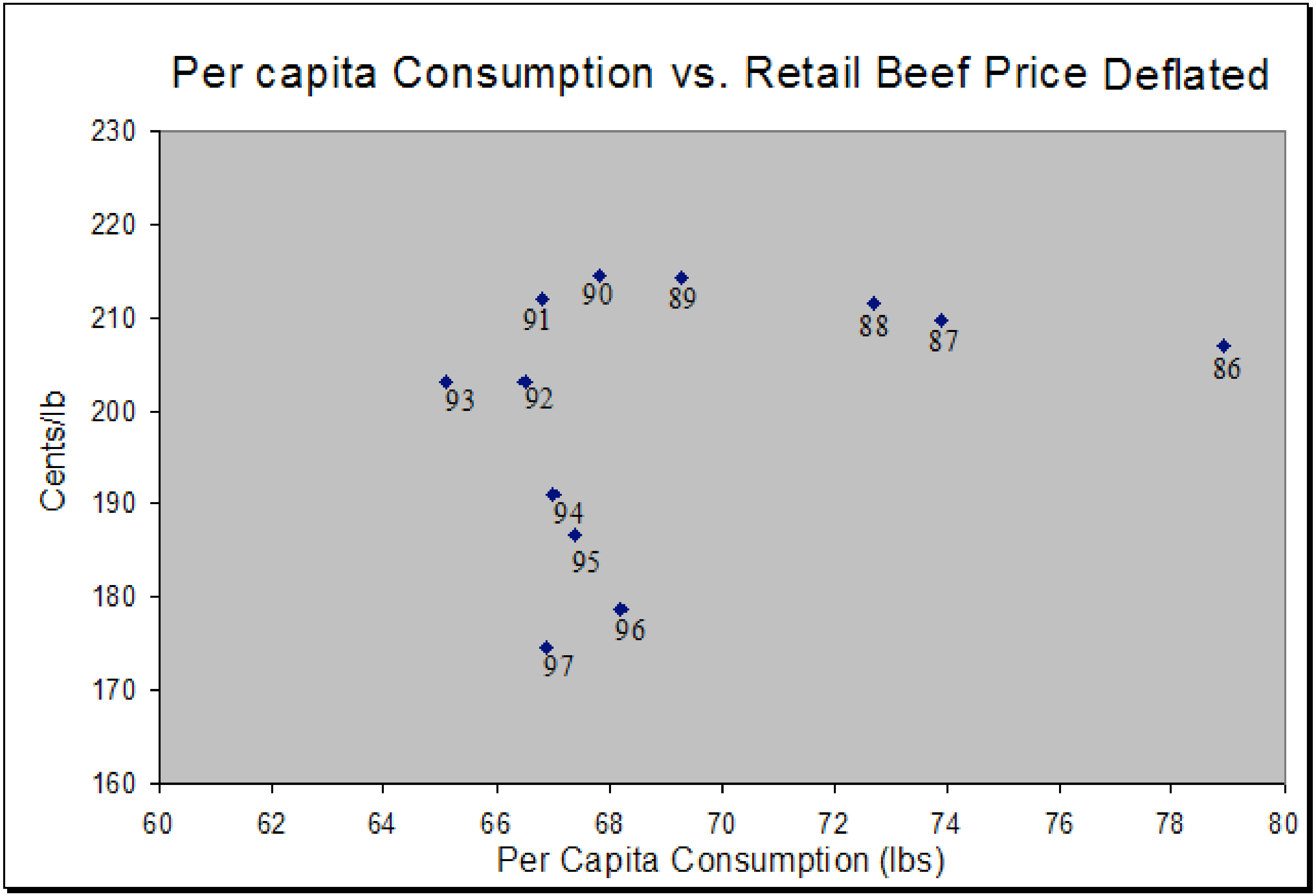
Price
$85
$80
Demand
65
70
Quantity

To see why per capita consumption does not measure demand, let's look at some real world data…


Per Capita Consumption vs. Retail Beef Price Deflated
Cents/lb
330
310
290
270
250
230
210
190
170
150
63
65
67
69
71
73
75
77
79
81
83
Per Capita Consumption (lbs)
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
03
94
95
96
97
98
99
00
01
02

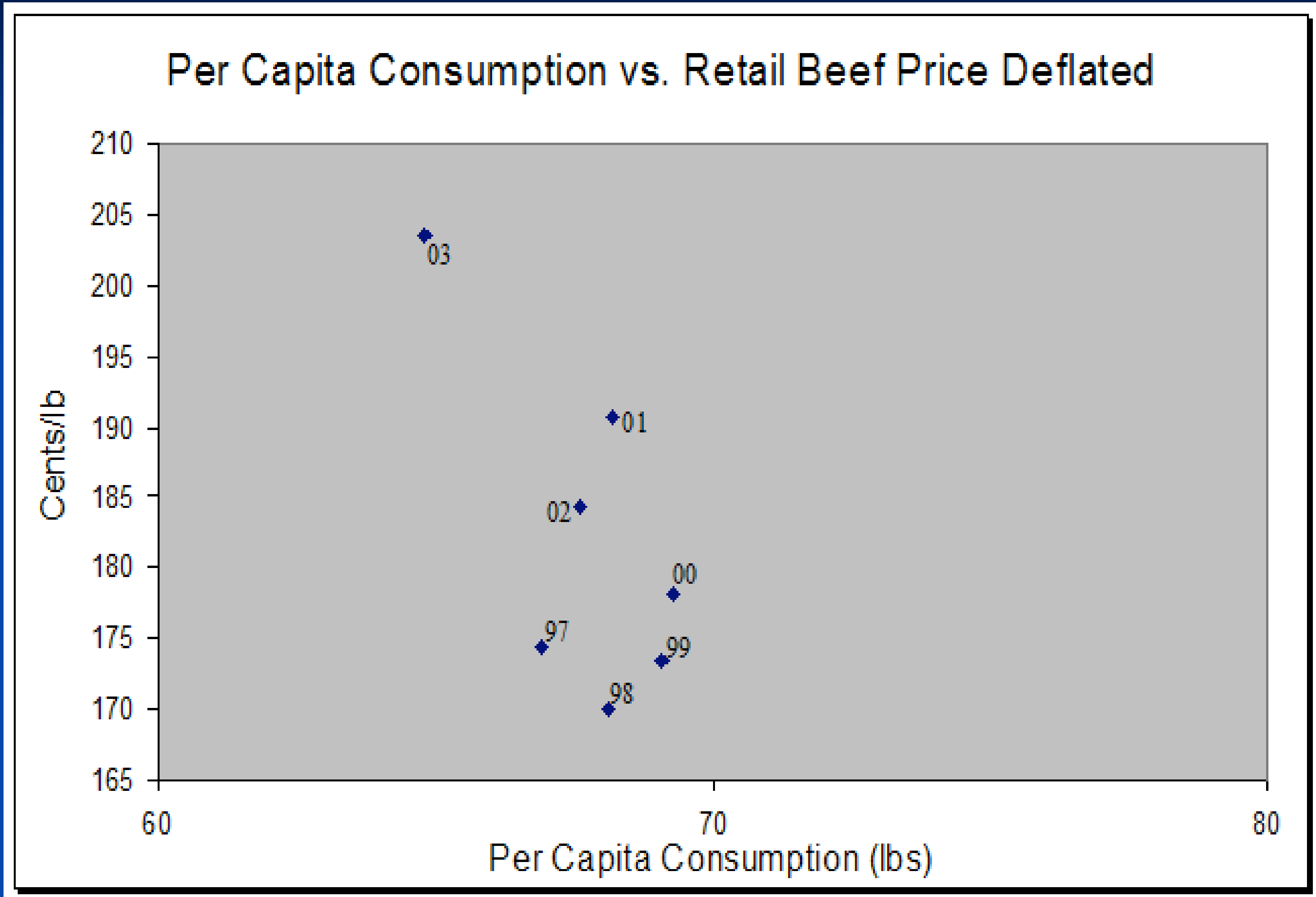

Per Capita Consumption vs. Retail Beef Price Deflated
Cents/lb
330
310
290
270
250
230
210
190
170
150
70
75
80
85
90
Per Capita Consumption (lbs)
79
80
81
82
83
84
85
86

Per capita quantity consumed nearly constant at 78 lbs. Price declined over 30%.


Per capita Consumption vs. Retail Beef Price Deflated
Cents/lb
Per Capita Consumption (lbs)
230
220
210
200
190
180
170
160
60
62
64
66
68
70
72
74
76
78
80
86
87
88
89
90
91
92
93
94
95
96
97

Price was maintained by forced downsizing of the industry and then came another period of constant per capita consumption and plunging prices.

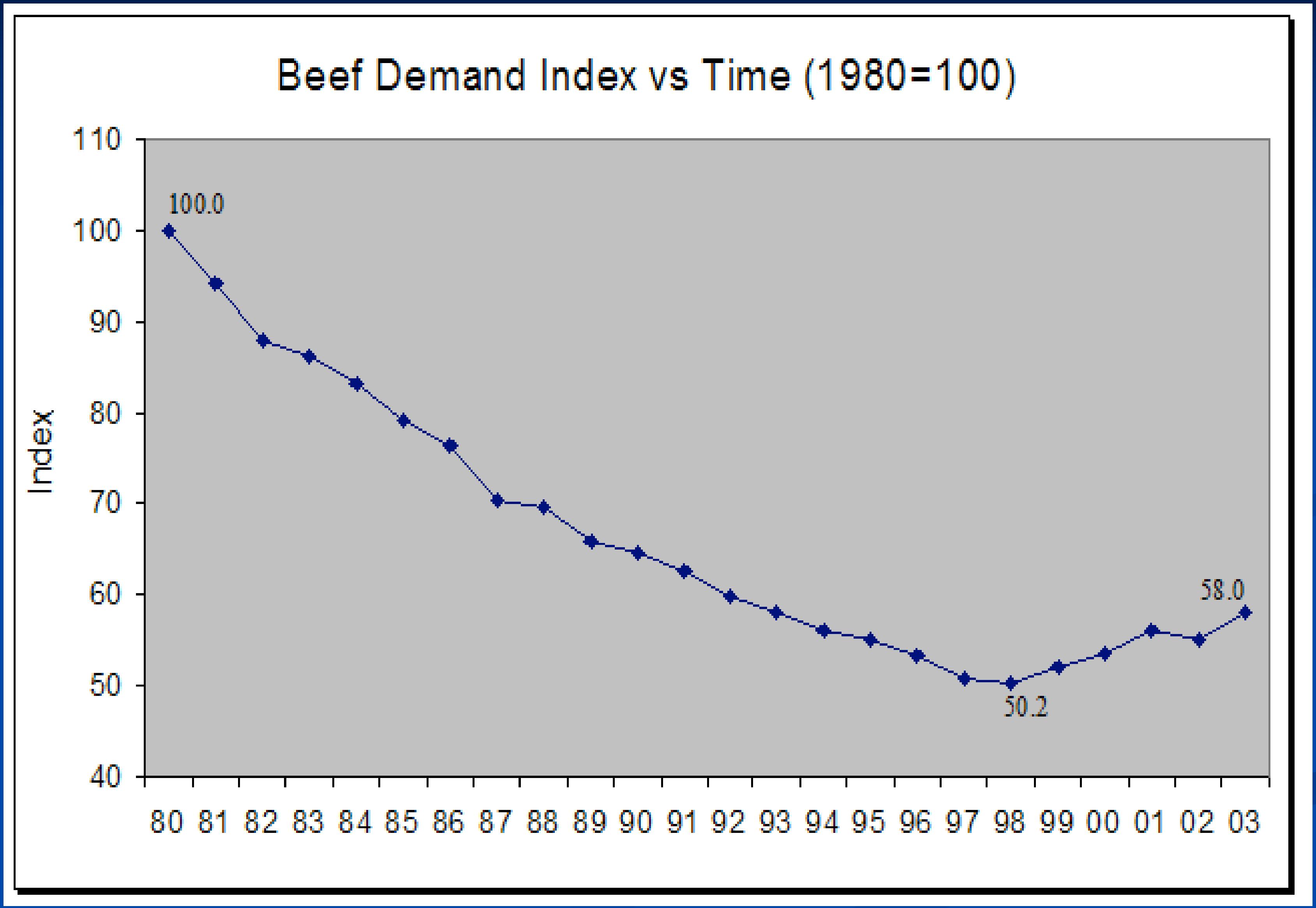
Focus on per capita consumption as a measure of demand ignores the consumers' ***willingness to pay***.


Per Capita Consumption vs. Retail Beef Price Deflated
Cents/lb
210
205
200
195
190
185
180
175
170
165
03
01
02
00
97
99
98
60
70
80
Per Capita Consumption (lbs)

Price increased by 20% from 1998 to 2003. ***Willingness to pay*** has been strong and growing since 1998.

Surely, we would not say demand was constant or decreasing because per capita consumption was constant or decreasing.

We have an indicator that cuts through these issues, deals with per capita consumption ***and*** price in terms of willingness to pay.



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What can we do as an industry to make sure consumers are willing to pay a price that gives us a chance to be profitable and growing?

Be “consumer driven” and change the product offering when consumers change what they want and are willing to pay for.

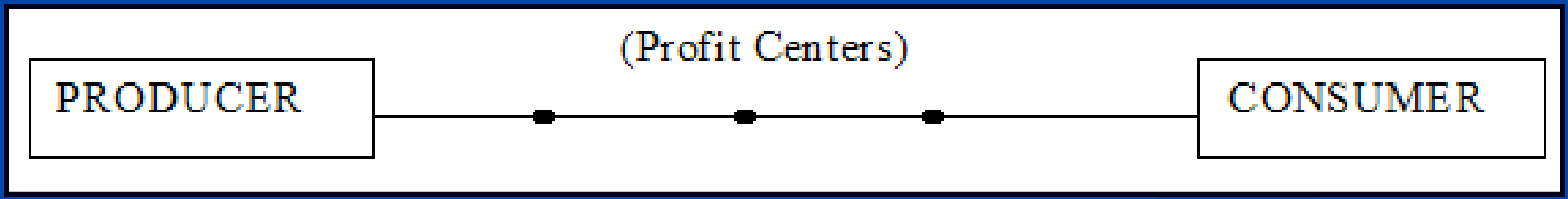
- Safe
- Tender
- Consistent quality
- Convenient to prepare

Increases in demand since 1998 when the demand index finally bottomed just above 50 (with 1980=100) were in response to

- Quality control,
- Guaranteed tenderness,
- Consistent performance, and
- New offerings that are convenient to prepare.

There is no doubt that the future of the industry is tied to the extent to which we go to the consumer, not wait for them to come back to us for an outdated product mix, and offer something they want and are willing to pay for.

Lets turn to how the industry has changed and think about how the changes relate to the turnaround in demand.


(Profit Centers)
PRODUCER
CONSUMER

Historically, it has been the pricing system that we look to for coordination along the supply chain.

Price signals allow consumers to send messages to producers– but not if the quality grades do not identify attributes such as tenderness that are important to consumers.

A 20-25 percent product failure rate in Choice and Select fresh beef persisted for 20 years and is only now starting to improve.

The emergence of “certified Angus beef” as a quality control mechanism helped processors see the potential.

The future will see more sophisticated coordination, quality control, and product innovation strategies that are characterized by:

- Continual demise of the price driven system
- Non-price coordination mechanisms such as contracts
- Investments in new technology at every “function” level
- Written performance standards and related compensations

- Longer term, some reclaiming of market share
- Some loss of independence at producer level
- Continued efforts to legislate against some of the trends away from the price driven system.

We need to think about why the industry is moving away from a price driven system.

The quality grades have not been changed to reflect the changing interests and lifestyles of consumers and the price-driven system has been allowed to fail.

There is no chance of an industry consensus to ask for grade changes such as tenderness scores within Choice and Select grades.

The inability of the price system to provide for coordination and quality control effectively killed any interest by the large processors in new quality assured and branded fresh beef offerings.

There have been billions of dollars invested in new products in the past 10-12 years but this did not happen until non-price means of coordination (contracts, alliances etc.) brought some ability to align cattle quality with final product needs.

The 22 percent increase in demand since the bottom in 1998 is based on national and state organization efforts to facilitate new products and on huge dollars invested by the big processors and by value-added companies.

From where we stand in late 2004, there are two paths the industry can follow:

- Legislate and regulate to force a return to the market based price driven system, or
- Accept the change to non-price approaches that bring coordination and quality control.

From the producers' viewpoint, there are tradeoffs:

	Contracts and Alliances	Price Driven
Feeling of independence		√
Part of growing industry	√	
Being consumer driven	√	
Will require new technology	√	
Assured benefits to technology	√	

	Contracts and Alliances	Price Driven
Stay in commodity cattle		√
Get premiums for quality	√	
Punish the packers		√
Discourage packer investments		√
Protect your investment	√	
Compete better with chicken	√	
Be like grandparents		√

Looking ahead, I predict 2004 to 2010:

- Record high prices repeated
- Opportunity to invest profits in better genetics
- Packer ban legislation will fail
- Investments by processors in new products
- Per capita consumption 60 lbs before increasing
- Demand will continue to increase
- Producers have a good chance at profits
- Start to take back lost market share

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