Vertical Coordination in the Evolving High Quality Beef Market

Consumer Demand for Branded Beef Programs

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Certified Angus Beef LLC

Evolution of USDA Certified Branded Programs

Quality Level	2001 Total	2009 Total	% Change
Prime	4	11	+175%
Upper 2/3 Choice	16	20	+25%
Small 50	NA	2	NA
Choice	9	21	+133%
Select*	12	31*	+158%
Stand/Util/Comm	0	2	+200%
Total Programs	**41**	**87**	**+112%**
Total Prem Ch & Prime	**20**	**31**	**+55%**

*Includes one program with A-E maturity and one with B-E maturity.

Source: USDA, Dec 2009

“House” and “Store” Brands

Rancher's Reserve Tender Beef

Naturewell Natural Beef

Coleman Natural Beef

SRF Snake River Farms american kobe beef

Ukrop's Own! Beef

Montana Range Brand

St. Helens Beef

Angus USDA Choice Fresh Hand-Cut Beef That's Honestly Priced

Maverick Ranch Natural Meats

Nebraska Corn-Fed Beef

Montana Ranch Brand Natural Meats

HyVee Blue Ribbon Beef

Niman Ranch Marin

Glacier Beef Raising the Steaks

Butcher's Brand Premium Beef

Meyer Natural Angus

heinen's own Beef

South Dakota Certified

Harris Teeter Rancher Tender Verified

Sutton & Dodge Steakhouse Quality Angus Beef

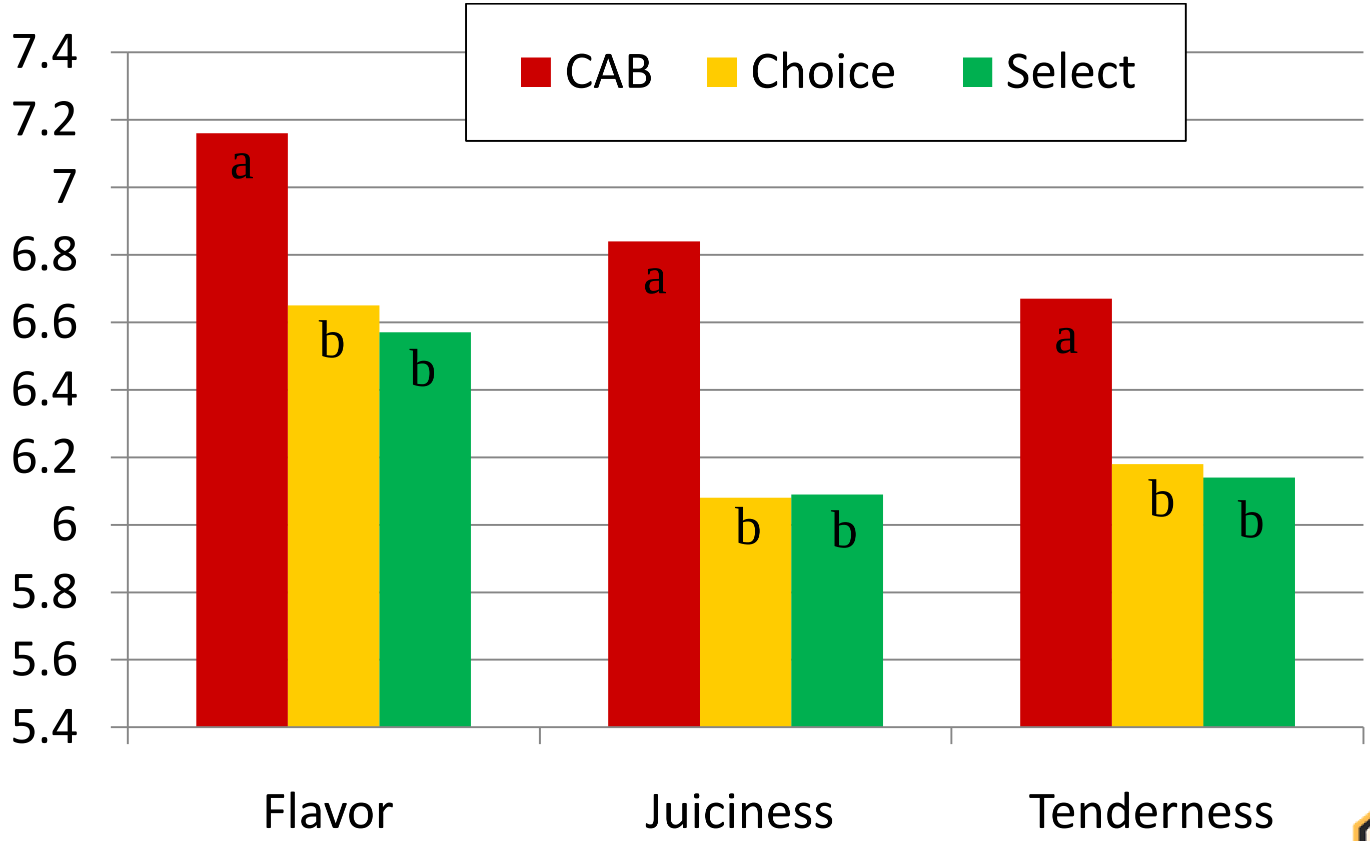
Fed Cattle Beef Production by Grade

Grade	2010 Avg Weekly Production*, lbs	Percent of Production
Prime	12,873,081	3%
Upper 2/3 Choice	64,507,196	16%
Low Choice	190,184,339	47%
Select	116,107,351	29%
Other	22,069,088	5%
Total Steer & Heifer	405,741,055	--

* Through July, carcass weight basis

Source: USDA

Does Quality Grade mean much anymore?



[a,b] Means with different letters differ ($P<0.05$)
Source: Clayborn et al., 2006

Trends in the Choice-Select Spread and Implications to Cattle Producers

Choice-Select topics addressed in this paper:

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Introduction

The USDA implemented the beef quality grading system in 1923 to differentiate value. The grades of Prime, Choice and Select (Select is derived from the original "Good") are typical designations for young, fed cattle today, and these grades have established themselves in the beef marketplace. Historically, a very small percentage of cattle reach the Prime grade, and the rest of the cattle are nearly equally split between Choice and Select. The more highly-marbled Prime cuts command a higher price than Choice, which brings more than Select.

In more recent years, fed-cattle marketing has increasingly evolved toward value-based systems or grids. Today, more than 60% of fed cattle are sold in a system that assigns price based on carcass quality grade. In a grid, wholesale boxed-beef values dictate the price producers are paid. The difference between the Choice and Select boxed-beef cutout (primal cut values assembled into one, composite number) is referred to as the Choice-Select spread (C-S), a major factor in establishing fed-cattle value.

The C-S has become a well-tracked metric within the beef industry. When the C-S reaches a high level (>$8/cwt) the industry assumes strong demand for highly marbled, that is, "Choice" beef. When the C-S is low (<$3/cwt), the industry assumes poor demand for Choice. Essentially, cattle producers have established the C-S as the barometer of demand for beef of high quality grades. This "reading" then determines many of the management decisions made by cattle producers, like genetics and implanting or beta-agonist strategies that can positively or negatively impact marbling and quality grade.

The C-S has become the market signal for "quality" within the beef industry, and the basis for significant decisions in cattle management and marketing.

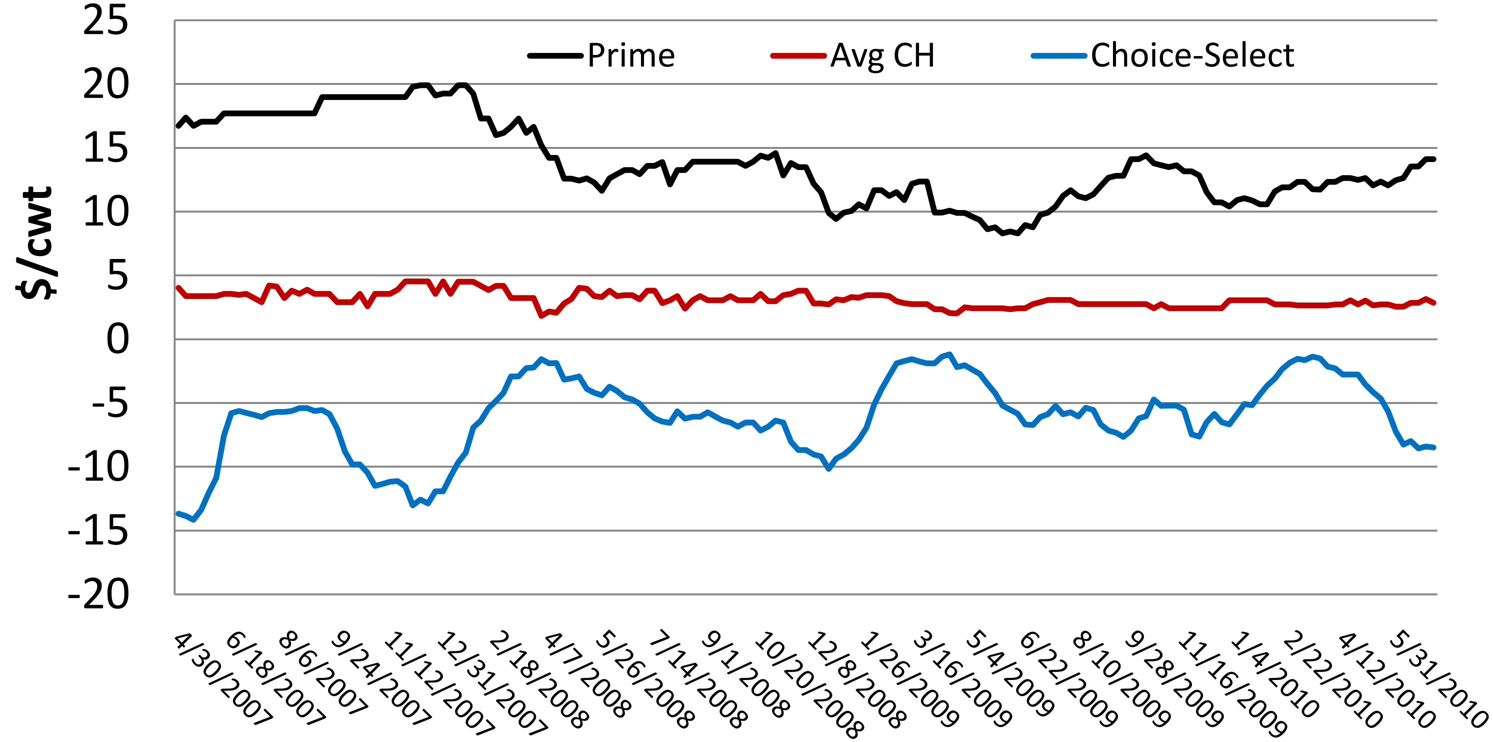
But the beef marketplace has changed over the years, creating a need to evaluate the current degree of effectiveness in this market signal. Branded programs, especially those like *Certified Angus Beef*® brand (CAB®) that use "upper 2/3 Choice," have significantly impacted the product mix that is sold as Choice.

Average Boxed Beef Cutout Spreads 2002 - current

	USDA (XB 463)	Urner Barry
Choice – Select	-$7.97/cwt	-$8.62
Branded* – Choice	$5.55/cwt	
CAB® – Choice		$7.05/cwt
Prime - Choice	$23.48/cwt	

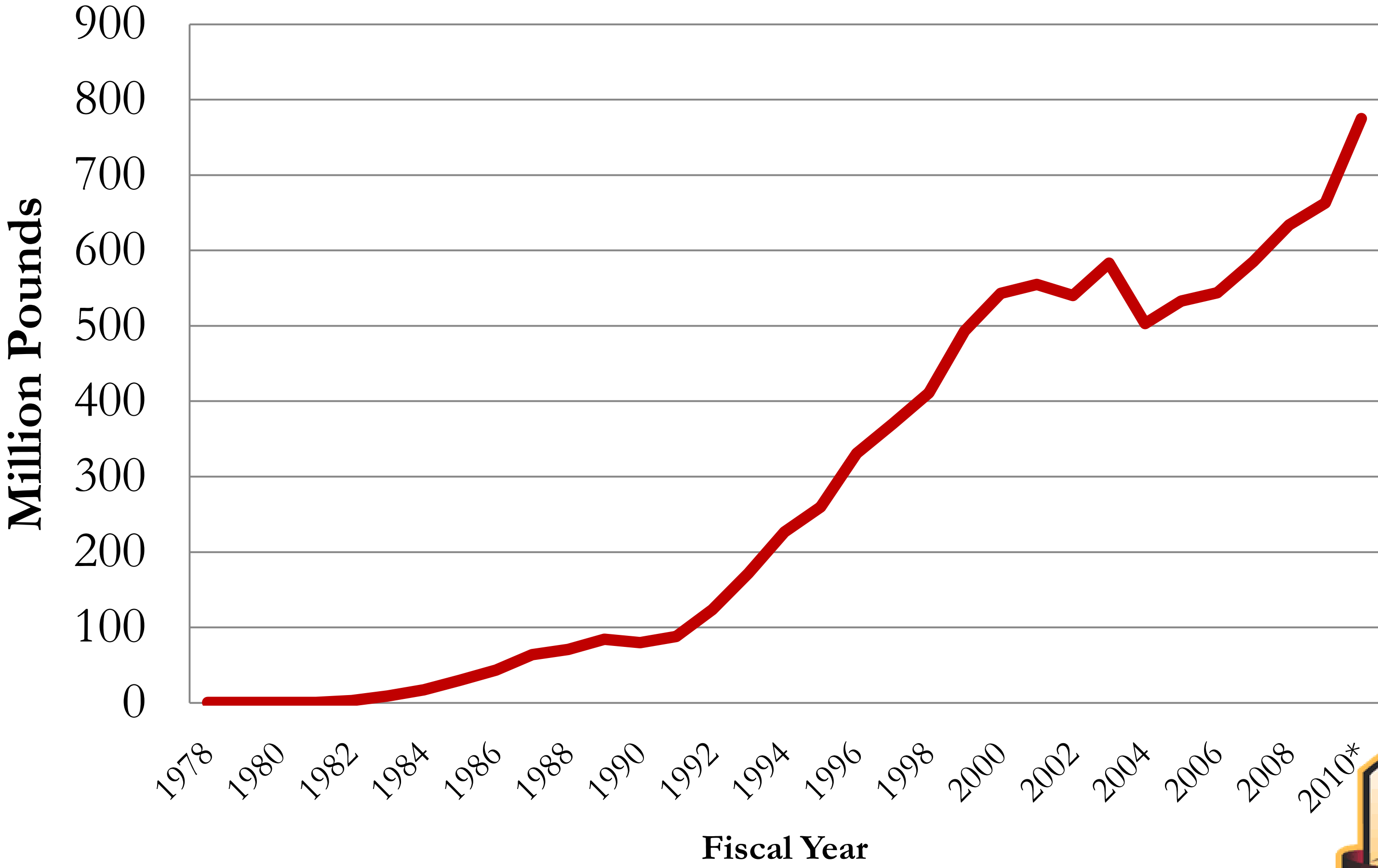
*Branded = Low Choice and Premium Choice combined

Weekly Reported Grid Premiums
(USDA LM_CT 169)



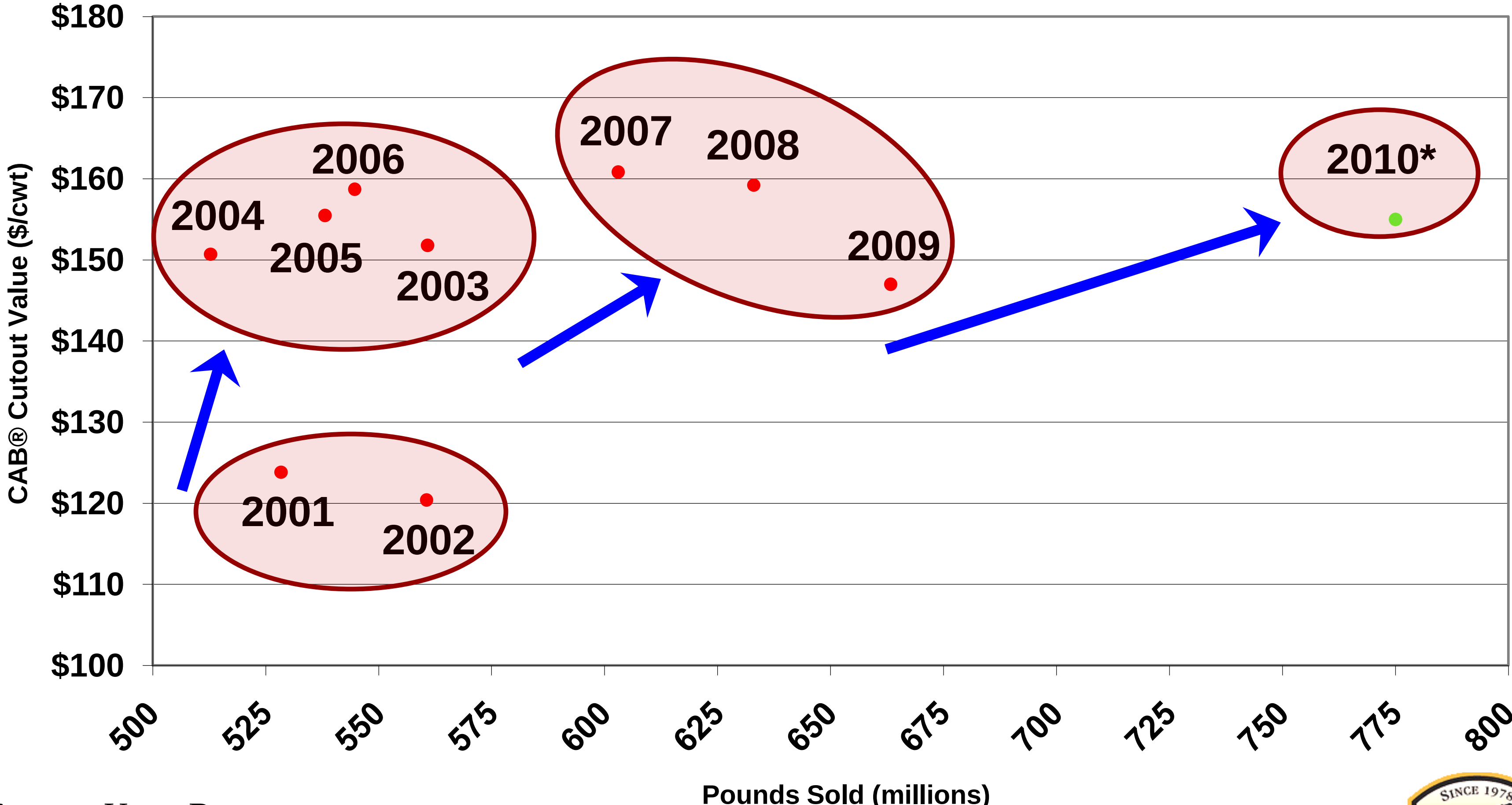
Average Grid Premiums, April 2007 – July 2010			
	Prime	Avg Ch	Ch-Se
Average Premium, $/cwt	+ $13.81	+ $3.11	- $6.07
Premium/hd (800 lb HCW, Choice base)	**$110.48**	**$24.88**	**- $48.56**

Annual Sales of the *Certified Angus Beef*® Brand



*Projected

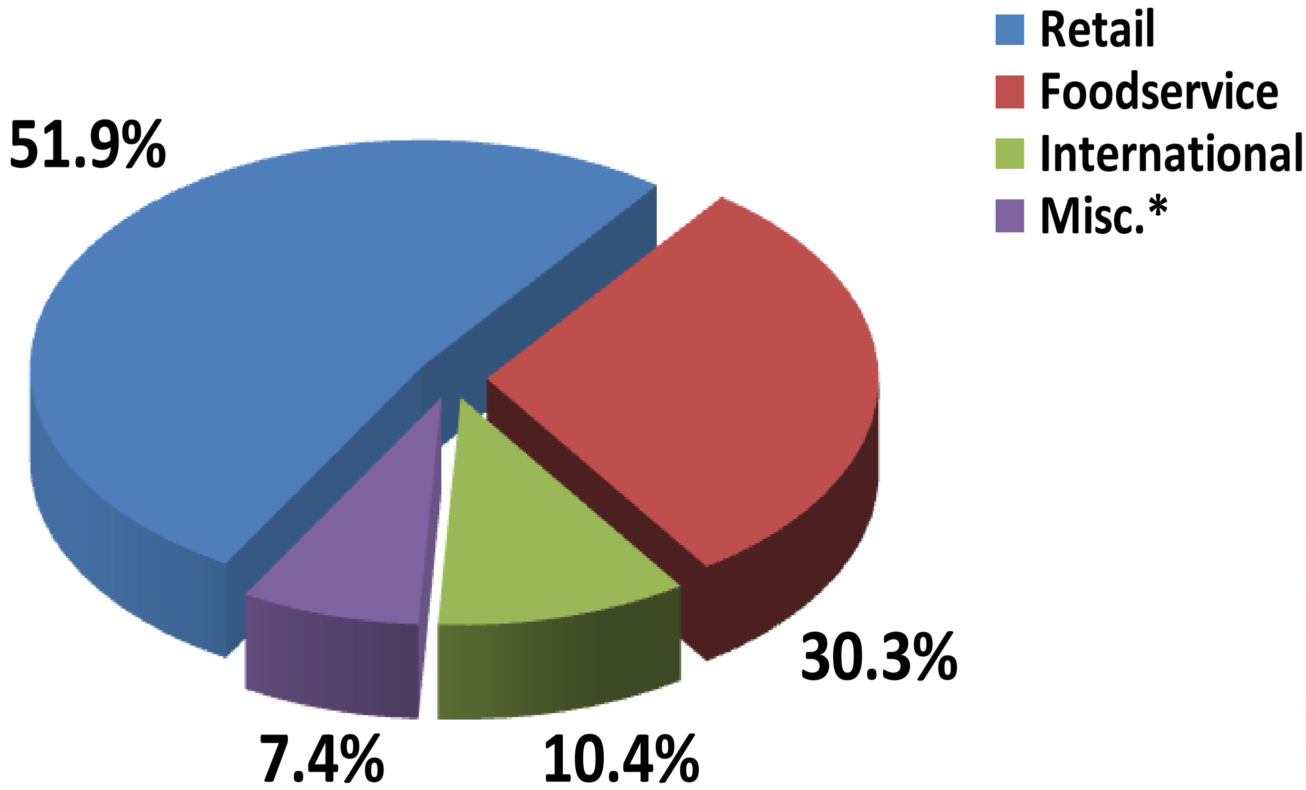
Certified Angus Beef® Brand Price – Supply Relationship



Source: Urner Barry

*Projected

CAB® Sales by Category



Certified Angus Beef® Brand — Since 1978

Tonnage not assigned to a specific division

CAB® Growth by Category

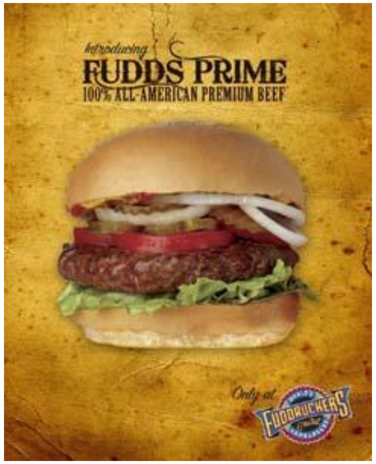
CAB® sales will grow over 100 million lbs in 2010!

	FY10 vs FY09*
Retail/Grocery	+23%
Foodservice	+10%
International	+10%

•18 of top 25 licensed retailers are up in sales
•Top 100 licensed restaurants up 20.6%
•Top 10 licensed chain restaurants (>10 units) up 20.4%
•9 of top 10 international export markets are up in purchases

*Through May

Growth in USDA Prime



U.S.D.A.
PRIME
SINCE 1978
CERTIFIED ANGUS BEEF®
BRAND

U.S.D.A.
PRIME
NATURAL
SINCE 1978
CERTIFIED ANGUS BEEF®
BRAND

The Future?

- USDA Choice is so diluted, Premium Choice and Prime will (have?) become the new benchmarks for “high quality”
- Demand for high quality beef will continue to grow as economy and exports improve
- Supply of high quality beef is much improved from 2-3 years ago. Will this continue?

Thank you!

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