Building a Strong and Viable Beef Industry in Saskatchewan
February 21, 2002

Industry Issues and Outlook
By Kevin Grier
Presentation Overview

- Demand
- Market Evolution
  - Where is it all going?
- Saskatchewan’s Potential
- Cattle Cycle
- Outlook
Canadian Pork Demand 1983-2000

Deflated Price Index

Per Capita Consumption

Year: 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 2000

Lines: D1, D2

Data points for each year plotted on the graph.
Canadian Chicken Demand 1983-2000

Deflated Price Index vs. Consumption (kilos)
Canadian Beef Demand 1983-2000

Deflated Price Index vs. Consumption (pounds)

- D1
- D2
- D3
Canadian Beef Demand 1983-2001

Deflated Price Index vs Consumption (pounds)

2001 Demand
Demand Drivers

- Income
- Health and Safety
- Convenience
- Quality
- Substitutes
Convenience
  - Cooking knowledge
  - Prep-time

Health and Safety
  - Image (Oprah)
  - Journal and Mag Articles on Nutrition and Diet
  - Safety Recalls
Beef Expenditures at Retail in Canada
So What?

- If 1999 demand was only as bad as in 1991:
  - 1999 revenue would have been $200 million higher
  - translates into $50/head on every animal marketed in 1999.

- Look at impact of Improvement in Demand in 2000 versus 1999
  - $3/cwt or over $40/head

- Beef Demand Matters to Every Rancher and Feeder, but especially Ranchers
Why Did Demand Improve

- Economy (incomes)
- Changing Diets
- Changing Health Perceptions
- New Merchandising Methods
- New Products
- Retailer Emphasis
Who Gets Credit?

- BIC Provided
  - New Naming
  - Funded Nutrition Research
  - Distributed Nutrition Research
  - Informed Retailers of Profit Related Merchandising
  - New Product Funding
- Economy
- New Diet Trends
Demand

- Look back and see how demand shaped where we are today
- Look at demand today to see how it will shape where we’ll be in the future
Past: How Did the Industry Deal With Declining Demand?

- Increase Scale
- Advanced cost reduction technologies
- Reduced Labor Costs
- Cattle Buying on scale/averages
- Enhanced safety technologies
Impact of Declining Demand

More With Less =

Fewer Packers, Producers

Battle of Attrition

- Fearman
- Canada Packers
- Dvorkin
- Burns
- Schneider
- …

- Lakeside/IBP
- Cargill
- XL
- BB
Share of Top Five Marketers

Percent of Total

- 1997
- 2000

- 20%
- 25%
- 30%
- 35%
- 40%
- 45%
The Effort towards low cost had to be made
  – Low hanging fruit
Yet: Continued weak demand
Plus: Low cost eventually yields diminishing returns
  – If everyone can do it, its not an advantage
As of late 1990's Subtle but Radical Change Occurred

- Retailers and big packers were part of the problem
- Now they are leading the change
The tide has turned toward a value added beef industry
Why? How?

- Packer Perspective
  - Gains from efficiency are diminishing
  - Higher Profit only comes from Higher Sales
  - New Competitive Dynamic
  - Consumer Choice is Exploding
Why? How?

Retailer Perspective
- Wal-Mart Says so...
- Safety
- Labor
- Inventory management
- Category/case management
- Logistics
- Micro-Marketing
Retailer Perspective Cont’d

- Increased Awareness that Meat Matters to Sales and Profit
- Increased awareness of profit potential of brands and case ready
- Competitive Tactic (Quality) versus Foodservice
What Is IBP Thinking:
- Planning Value-added and Branding Since early 1990's
- Needed Critical Mass of Share and Resources
- Marketing Scale
- Full Meat Case Replacement
- Mega-Brand
- Billions $
- Costco
- CAB Growth
What’s Next

- Retailers will continue to push increasing responsibilities to the packer
- Progressive Retailers will become expert meat marketers
- Consolidated Retailers demand efficiency, consistency, quantity and quality
- That means case ready beef
- Branding is a guarantee of consistency at the least (“TEW will be our biggest Asset”)

"What's Next"
What’s Next

- Vertical Co-ordination
- Growth in Agreements, contracts and partnerships between packers and producers
- Safety, quality (yields, size, consistency..)
- Mutual Benefits, Objectives and Responsibilities
- Identity Preservation
What Does it Mean?

- Requirement for growth and access to capital
- Must reach pasture, feedlot and plant goals
- Responsibilities for source verification processes
- Mgt practices to reach grid premiums
- Information sharing from grids
What Does it Mean

- Case ready and branded beef will take cattle production to “a different level.”
Saskatchewan’s Potential

- Alberta is the most cost competitive of the major cattle regions in North America for feeding and cow calf
- Saskatchewan is lower cost than Alberta
  - Key advantages are land and feed
Sask is Moving Ahead in Many Ways
Sask/Alta Beef Cow Ratio

Sask Cows/Alta Cows

2000 2001 2002

Sask/Alta Beef Cow Ratio
Sask/Alta Stocker-Feeder Ratio

Sask/Alta Stockers and Feeders

- 2000
- 2001
- 2002

- 0.27
- 0.28
- 0.29
- 0.3
- 0.31
- 0.32
Sask Potential

- Saskatchewan’s advantages are partly due to the fact that there is a feeding machine in Alberta (and there isn’t one in Sask)
- Bottom line: there are no logistical, geographic or market impediments to growth
- Risk takers
Market Outlook
Market Outlook

- Cattle Cycle
- Big Picture
  - Tighter supplies
- Smaller Picture
  - Big Front End Supplies
## 2001 LIVE CATTLE PRICES: ANALYSTS’ FORECASTS

<table>
<thead>
<tr>
<th>ANALYST</th>
<th>Gill</th>
<th>Gottschalk</th>
<th>Grier</th>
<th>Kropf</th>
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**NOTE:** Prices are in $/cwt., basis Southern Plains Choice steer. Prices are expressed as an actual average or as a range for the average for each quarter. Beef production is expressed in billions of pounds for calendar 2001.

**ANALYSTS:** Jim Gill, Texas Cattle Feeders Assn.; Andrew Gottschalk, R. J. O’Brien & Associates.; Kevin Grier, George Morris Center; Joe Kropf, Joe Kropf & Sid Love Consulting Services; Chuck Levitt, Alaron Trading Corp.; Bob Price, North American Risk Management Services; Jim Robb, Livestock Marketing Information Center; Mike Sands, Sparks Companies; Tom Tippens, eMerge/Professional Cattle Consultants.

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**RETENTION AND WEIGHTS WILL DETERMINE PRODUCTION**

**HEIFER** retention and slaughter weights will be key factors in determining beef production this year. USDA forecasts production down 4.8% to 25.63 billion lbs. But analysts say that is way too low. As noted above, most analysts peg production at least at 26 billion lbs. Some even forecast 26.4 billion. A reduction in annual average slaughter weights to 732 lbs. and a reduction in commercial cattle slaughter by 1.1M head would mean a decline of 805M lbs from 2000, says Andrew Gottschalk. That would still put this year’s total above 26 billion lbs. USDA expects pork production to increase 2.4% to 19.38 billion lbs although most analysts peg the increase at only 2%. USDA puts broiler production at 31.18 billion lbs, 3.7% above year earlier. So USDA expects meat and poultry production to total a record 82.71 billion lbs., 0.6% above year ago. More beef would increase this.
Cattle Cycle

Is the US ever going to start rebuilding?
  – Ranchers couldn’t resist marketing heifers
  – Cows and replacements down (Jan 02)

Sask cow herd grew but replacements down

Alta cow herd and replacements were down
Cow Inventory and Slaughter

- Total Slaughter
- January Cow Inventory

Graph showing the relationship between January Cow Inventory and Total Slaughter from 1990 to 1997.
Welcome Kevin Grier. You are logged in as kgrier, you can log out here.

February 4, 2002

2002 Live Cattle Prices: Analysts' Forecasts

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US Steer Prices
Forecast Challenges

- Economy
- Japan BSE
USDA Cattle on Feed 120 Days

Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

2001 96-00 2002

'000 Head

1,000 1,500 2,000 2,500 3,000 3,500 4,000
C$ Performance

C$/US$ Performance Chart

- 2000
- 2001
1 to 1 relationship between the C$ and cattle prices

Outlook:
- LT bearish (relative productivity, taxes)
- Reasons to invest in Cda vs. US?
Local Supply & Demand
(otherwise known as spread or basis)

Supply and demand compared to the US
- Packer capacity/markets
- Transportation costs to alternative packers
- Local supplies
Alberta-TPH Spread 2001 vs. 96-00

C$/cwt
What’s in-store for the spread?
Drought induced feeder exports or import reductions will make this worse.
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