Rapidly evolving

• New players
• Consumer consolidation
• Customer and consumer demand shifts
• Increased pressure to consolidate
• Increased pressure to change vertical linkages

• All of this before BSE
Beef Packing plants

- Plants are where the cattle are
- Map shows top 30 packers’ plant locations, most in major cattle-feeding states
- 15 plants slaughter over 1 million steers and heifers annually (GIPSA 2001), handling approximately 20 million U.S. cattle
Economies of Size

- Scale, utilization and expanded scope of processing economies have contributed to larger beef packing plants doing more extensive processing, squeezing out costs to stay competitive (MacDonald and Ollinger; Paul)
- Packing firm economies come from greater capacity utilization of plants, spreading overhead costs across more animals and valued-added products per plant, and more plants, and ability to serve larger customers more effectively in consolidated customer markets
Changing players

• Tyson Foods acquired IBP
• ConAgra gave Swift and Company its independence
• Farmland Industries bankruptcy led to U.S. Premium Beef (cooperative) and BPI purchase – National Beef Packing Co.
• Smithfield entered through acquisition of Moyer and Packerland
• Iowa Quality Beef – Iowa Cattlemen’s Association formed cooperative -- ranked 14th
### Top 5 Packers – 2002 Volume

<table>
<thead>
<tr>
<th></th>
<th>Mil. head</th>
<th>Percent Fed Cattle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tyson Foods</td>
<td>9.2</td>
<td>33.8</td>
</tr>
<tr>
<td>Excel (Cargill)</td>
<td>8.1</td>
<td>23.1</td>
</tr>
<tr>
<td>Swift &amp; Company</td>
<td>5.2</td>
<td>16.9</td>
</tr>
<tr>
<td>National Beef</td>
<td>3.1</td>
<td>10.6</td>
</tr>
<tr>
<td>Smithfield Foods</td>
<td>2.1</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Source: Cattle Buyers Weekly
Pressures for Change

- More customer assurances required
  - Organic food market growth
  - Meat and bone meal use
  - Antibiotic or hormone use
  - Animal/bird handling practices
  - Product Alliances – Niman Ranch, Laura’s Lean, Coleman
  - Traceability required – Trust but Verify?
Pressures for Change

- Retail customer consolidation -- fewer, larger, more intense competition
- Wal-Mart – ization of the food industry!!
  - Purchasing power plus new labeling and handling systems and efficiencies
- Product differentiation via branding, ready-to-heat packaging, etc., is major growth area in beef, finally!
- Retail sole source suppliers of fresh meat product lines becoming more prevalent
Pressures for Change

• Positive demand effects of Atkins, South Beach and other low-carbohydrate diets offset prior negative fat and cholesterol image of beef -- sustainable or flash in pan??

• BSE concerns in U.S., Canada, Western Europe and Japan— the focus of next speakers
Markets at each stage coordinated chain, but system worked poorly

- highly varied product
- little price-quality distinction
- no incentives to improve
- 1 in 5 “quality” steaks were too tough to chew!

Source: Schroeder
1. Fresh Branded Case-Ready Products

Branded beef used to be nonexistent

Now common

USDA has 50 beef certification programs
Vertical linkages changing

- Tighter links with customers and branded products requiring closer links with suppliers
- Packer ownership relatively low
- Large percentage purchased under forward contract and marketing agreements
- Alliances increasing in importance – Certified Angus Beef, etc.
- Packer ownership and control--controversial -- in Congress, legislatures and the courts
## Cattle pricing methods

<table>
<thead>
<tr>
<th>Period</th>
<th>Negotiated</th>
<th>Formula</th>
<th>Forward</th>
<th>Packer</th>
</tr>
</thead>
<tbody>
<tr>
<td>April - Dec 2001</td>
<td>41.10</td>
<td>51.93</td>
<td>3.34</td>
<td>3.62</td>
</tr>
<tr>
<td>2002</td>
<td>39.60</td>
<td>49.54</td>
<td>3.96</td>
<td>6.90</td>
</tr>
<tr>
<td>2003</td>
<td>46.41</td>
<td>40.26</td>
<td>6.38</td>
<td>6.95</td>
</tr>
</tbody>
</table>

Source: AMS Mandatory Price Reports
Packer Beef Marketing
Outlets -- 1999

- Retail commodity sales 28 %
- Retail branded products 2
- Food service commodity sales 8
- Food service branded 1
- Further processing 19
- Export commodity sales 9
- Export branded sales 1
- Wholesaler or broker 22
- Other 11

Source: Hayenga, et al.
Packer Sales Methods -- 1999

• Cash market, delivery within 21 days 70%
• Forward fixed price contract --
delivery beyond 21 days 9%
• Forward formula price contract --
priced off current cash market 8%
• Long run agreement basis --
not on cash market 3%
• Packer sets price and takes orders 7%
• Packer bids for sales (bid-acceptance) 3%

Source: Hayenga, et al.
Overview

• Tyson and Smithfield entry into beef packing and processing is a new dimension in overall meat industry competition

• ConAgra exodus from slaughter and fresh meat due to poor financial results

• Closer vertical links in the beef chain are responses to increasing demands for reduced risks (quality, quantity, financial) and costs, better information transmission, enhance profits and competitiveness

• More change is yet to come in response to increasing stresses and demands being placed on the system by customers, especially!