



CAB Corner on Quality
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Grinding out value

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To say Americans love a great cheeseburger would be an understatement. Annually, we consume over 8 billion burgers in restaurants alone. More than half of the beef we purchase at the grocery store is ground beef, and most of that we use to make burgers. You can see the same trends within the *Certified Angus Beef*[®] (CAB[®]) brand. Annual ground beef sales have soared to 53 million pounds, almost 10% of all CAB product sold. That's a 17% increase over the previous year and double the growth rate of total CAB sales. Why is ground beef so important, and what are the primary factors driving its growth?

As we look to drive the value of Angus cattle for the producer, and CAB product for processors and distributors, one of the biggest challenges is to market as many pounds of each certified carcass under the brand as possible. That's why CAB ground beef provides a tremendous avenue by which we can maximize carcass utilization. In 2003, ground beef volume sold per certified carcass ranged from 5 lb. to near 40 lb. among all licensed packers. The average of 20 lb./head is respectable, but only half of the overall potential.

While retail grocery stores sold more than half of all CAB products, foodservice licensees are the front runners in CAB ground beef sales. Along with restaurants, they marketed more than 60% of all CAB ground beef in 2003, compared to retail at only 31% of sales. Restaurant chains led the way, with Blake's Lotaburger, operating 75 units throughout New Mexico and Texas, and Cheesecake Factory's 76 restaurants coast to coast. International sales account for 4% of the CAB ground beef market share, mostly restricted to Canada and Mexico due to the limited shelf life.

One of the primary drivers of foodservice sales success is the increasing number of specialized, regional grinders. These provide quick turnaround service for our distributors that demand next-day service on fresh grinds, as opposed to frozen grinds that can be shipped long distances. Specialized grinders account for 24% of all ground beef sales and the largest portion of 2003 growth. The remaining 76% comes directly from licensed

packers. Specialized grinders also add value because they can produce items in lower volumes that may not be part of the mainstream product offerings, such as high percentage lean (93%+) ground beef.

The average U.S. household purchases ground beef an average of 1.8 times each month, and consumers are reading the labels. While all grinds must be identified with a percent lean, some are also identified by the part of the carcass from which they originate, such as chuck, round, or sirloin. Consumers perceive identification of the source primal cut as an increased level of quality, beyond the labeling of the percent lean content. Roughly two-thirds of all CAB grinds sold are ground chuck, mostly labeled 80% lean. Ground round, at 85% lean, and ground sirloin, 90% lean, finish out the CAB ground beef category at 23% and 10% of total sales, respectively.

Without a doubt, the largest area of opportunity for growing the CAB ground beef category is the retail sector. At more than half of total CAB sales, but only 31% of ground beef sales, there is a huge gap to be filled. The gap is there largely because of the high-volume, low-margin nature of ground beef. Many licensed retailers hesitate to change current ground beef offerings at the risk of disrupting sales.

However there are many success stories out there today: Reasor's in Oklahoma, which offers only CAB grinds, leads the pack in per-store movement. Buehler's in Ohio recently made the change to offer only CAB ground beef and has had tremendous results. Other areas of future growth include expanded product offerings such as those 93%+ lean grinds, case-ready chubs (bulk packages), and case-ready high- and low-oxygen, modified atmosphere packages.

It's still a high-volume, low-margin business, but there is huge potential for CAB product growth, driving demand and value for Angus cattle. CAB ground beef sales also increase brand awareness and help maximize carcass utilization. When consumers reach in the case for their favorite beef item, even with ground beef, they are now selecting for the highest quality in a brand they trust: CAB.

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