

Creating Value

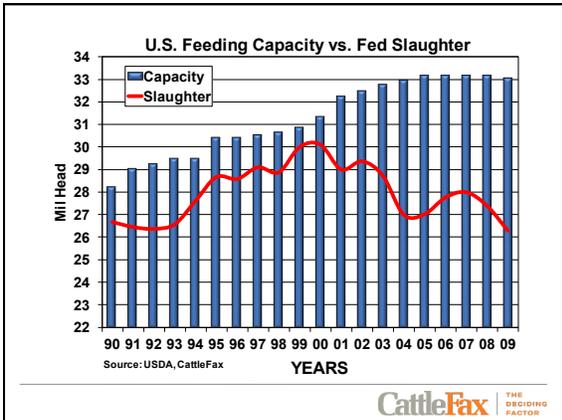
Range Beef Cow Symposium
Mitchell, Nebraska
November 30, 2011



Creating Value and Capturing Value - (It's both easy and hard)

In Will Not Be Difficult to Get High Prices the Next Several Years.

▶ “In all the years I have never seen the market dynamics like this - where demand exceeds supply. It may be a one in a lifetime occurrence.” -- Tom Brink, V.P. Five Rivers



Demand booming outside of our borders

- ▶ Over the next ten years in Asia, 1 billion consumers will join the ranks of the middle class.
- ▶ In China alone there are over 200 cities with a million people or more.
- ▶ 96% of the worlds population lives outside our borders

A Seller's Market with Some Caveats

- ▶ Historic Prices but also Historic Price Spreads
- ▶ Value differences are exploding!
 - Ethanol subsidies have changed, the entire structure of our industry.
 - (800 lbs. at \$.45 cog = \$360, 800 lbs. at \$1.20 = \$960) A ten percent increase in feed efficiency has went from \$36/head to \$96/head.
 - A 30 lb. increase in carcass weight has gone from \$30 to \$56
 - For just those two traits that is over \$30/cwt. over the average on a 5 weight steer.

New Challenges:

- ▶ More Risk -- Historically the average price range from the high to the low in a given year is 21%
 - Moving from an average of \$80 to \$110/cwt. Increases the amount of risk per head by \$75.

When the rules change the goals change.

Program vs. Grid

\$3 corn and \$5 Choice/Select Spread is not the same as \$7 corn and \$20 Choice/Select.

Such a Simple Equation - It isn't Rocket Science

$$\frac{\text{Benefits}}{\text{Cost}} = \text{Value}$$

The Foundation

- ▶ Genetics
 - Efficiency
 - Pounds
 - Quality
 - Mature Size vs. Outweight
 - Heterosis
 - Breed Complementarity
 - Flexibility
 - Marketability
 - Uniformity

The Foundation

- ▶ Management
 - AI / Length of Breeding Season
 - Nutrition
 - Uniformity
 - Weaning Dates
 - Calving Dates
 - Marketing Windows
 - Vaccination/herd health
 - Age, Source, Process, Verified

The Foundation

- ▶ Health
 - Vaccinations
 - Worming
 - Nutrition
 - Mineral

Competition will be fierce



Not Only Have to Create Value You Have to Capture it

- Marketing!
 - It is about execution.
 - Chopping ice
 - Differentiation
 - Customer Focused – What will it take to make a satisfied customer?

“ the only truly sustainable competitive advantage is the ability to learn and adapt faster than your competition ” – Jack Welch

“You do not merely want to be the best of the best. You want to be considered the only ones who do what you do.”

Jerry Garcia

“A great company is defined by the fact that it is not compared to its peers.”

Phil Purcell, Morgan Stanley

More About the People than the Cattle

- People Business
- Relationships
- It is a cumulative effect (Fly Wheel)
- Age and Source, Known Sires, Known Seedstock Supplier, Health, Condition, Management, Tied to a Program

Managing for the future:

- You must compete everyday (sign on the wall)
- Associate with winners
- Embrace the innovators dilemma – “The very management principles companies rely on actually can inhibit their ability to master change.” Clayton Christenson

Brands to Systems:

“Increasingly a brand is far more than just a name on a product.
Winning brands are carefully designed business systems.
 These systems stretch from the choice of raw materials to final service with the customer. **And it is the total system the customer purchases, not just the product.**”

The Boston Consulting Group

Creating Brand Equity and Value

- The point of value convergence (Jif, Starbucks) – Volume, Quality, Risk Mitigation
- Want to be a low-cost producer of value.
- Pick our partners well. (commitment)
- Maintain flexibility.
- Own the brand.
- A brand is a system.

A Brand is a Promise!

Promises are like babies,
 Easy to make,
 Hard to deliver, and even
 harder see to maturity.

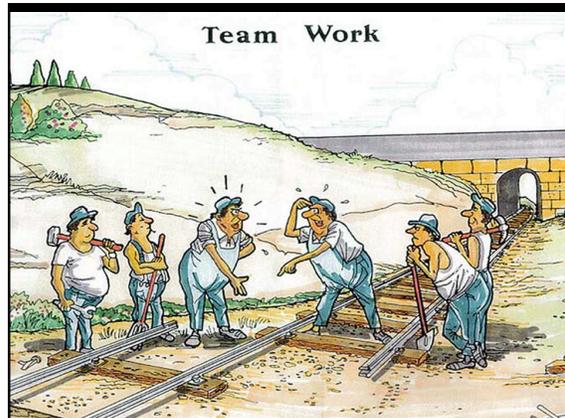
Must have a story to tell and then tell it!

Value Differences Exploding – based on genetics and management.

Supply chain, understand the value differences but struggles with identifying it consistently. (everyone uses good bulls and management – data, info, relationships)

Size and Commitment -- More Interdependence.
 Understanding the goals of your partners – feedyards, packers, consumers, auction markets
 ▶ (chicken and pig)

Team Work



The Allied Approach

- What Do We Stand For?
- How are We UNIQUE?
- What do our Customers Want?
- What information do we need?
- What information must we provide to our customers?
- Total Systems Approach! (more \$ differentiation, pasture to plate, consistency & uniformity)

How do I take advantage of the opportunities and minimize the risk from the challenges?

- ▶ 1. Documentation - Age, Source, Process and Genetic Verification
- ▶ 2. More active role in marketing. (market timing replaced by price point acquisition - annual swing equal to daily swing)
- ▶ 3. Risk Mitigation
 - Price point planning
 - Ensuring market access

Farr, Monfort

THIS IS THE BEST OF TIMES!