2017 Annual Meat Conference
Questions and Answers – Impact of ABF and Organic on Total Store Sales
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Is the CAGR growth in ABF as a share of the total accelerating? What do you feel like the top end of the ABF market will be in terms of protein segments?

We use CAGR as a measure of absolute dollar and volume growth. The annual growth rates will likely decline as the base increases in size. That said, protein ABF growth rates will likely exceed average protein growth rates for foreseeable future. We believe ABF shares will increase as product availability increases and price differentials to conventional offerings decline.

Chicken share expansion has tripled since 2011. Beef and Turkey have been growing steadily but from an extremely small base. Pork shows promise but has stalled at 4% for the past three years.

As far as the “top end”, as the presentation indicated, the intersection of consumer awareness, price difference acceptability (vs conventional) and product availability will fuel continued growth. We are not in the position to determine the “top end” of the market.

	ABF Share of Protein					
	2011	2012	2013	2014	2015	2016
BEEF	2%	3%	3%	3%	4%	4%
CHICKEN	5%	7%	8%	10%	13%	15%
PORK	1%	1%	2%	4%	4%	4%
TURKEY	4%	5%	5%	6%	6%	6%

Slide 12 Is the 6 share of ABF in turkey inclusive of whole birds?

Yes, Turkey figures include Whole Birds.

Do consumers truly understand the difference between Natural, Organic, and Grass Fed?

Our primary research indicates that there remains confusion among many consumers on the definition of claims including Natural, Organic, and ABF/NAE. We feel this is an area of opportunity for manufacturers, retailers and the USDA.

What market share will grass fed grab in this segment?

Difficult to predict at this point, but given the 1.6% current share and high 3 year CAGR, it won’t take long to double current share. The key determinants will be continued growth in consumer interest and product availability.

In your materials presented, what is your definition of ABF/NAE?

ABF and NAE are grouped together in our claim data as ABF. Our classification of ABF is attributed to brands and products based on the combination of retail descriptions received, our knowledge of the vendors/brands and their health attributes as well as input from our clients.

Is Costco in these numbers? If so what does it look like without them?

Costco is not in the numbers. We are not allowed to include Costco in our summary market views.

Do you think that in the future we may see a health insurance cost associated with eating meat that is not NAE? Similar to how tobacco fees are tied onto health insurance.

No, we think that is highly unlikely to happen and impossible to monitor.

How does actual sourcing come into play in this conversation? Since consumers aren't actually willing to pay in most cases, how do you rectify?

Consumers have shown that they are willing to pay a premium for proteins with key health related claims. However, expansion beyond the few segments that can afford to pay the premium will require a narrowing of the price premium. Growth in supply and more competitive pricing from retailers as distribution increases will draw in more consumers. For example, we are seeing substantial growth in supply of NAE chicken and anticipate price premiums to narrow as more retailers offer broad selection of NAE chicken cuts and compete for consumers.

Page 15 and 17 in the slide deck illustrate our point above. ABF ground chicken reached 55% ACV distribution in 2016 and price premium narrowed from 60% to 26% over last 5 years. This combination has propelled ABF share of ground chicken to 22.5%.

At the National Grocers Association conference in Las Vegas last week, they claimed that locally made trumps hormone/antibiotic free and is the future. Do you agree with this?

We believe antibiotic free has substantial growth headroom.

What are you seeing in terms of premiums for ABF across proteins? Are they holding up?

Pages 16 and 17 in the deck show Beef and Chicken price premium ABF to Conventional largely unchanged over last five years across major cuts. Turkey is similar, while Pork premium decreased significantly 2011 to 2016.

How can the industry clean up Natural/Organic labeling?

While government intervention may not be a preferred option, some sort of unifying definition of health claims that are agreed upon and adhered to by the supplier community is the best way to standardize the industry. This would also serve as a way to inform consumers and eliminate the confusion. Manufacturers and retailers would have to get behind this effort with both consumer education and government lobbying efforts. The USDA has recently come forward with stronger guidelines related to Antibiotics use and withdrawal periods.

Does it matter to the consumer if the product has no Antibiotics ever, or raised without antibiotics, or judicious use of antibiotics?

We can confirm that there is a fair amount of confusion about each of these claims. Chicken and Turkey are more likely to have substantial NAE share opportunities due to relatively short growing cycle, while Beef and Pork are more likely to focus on judicious use of antibiotics.

Just couple of examples:

http://www.thepoultryfederation.com/news/2016/09/16/majority-of-consumers-confused-about-animal-welfare-issues

http://animalantibiotics.org/clearing-the-confusion/

Do we have the physical capacity in the US to raise the animals needed to continue the trend?

We focus on measuring retail sales, but presuming that demand is unmet and prices will support increased capacity, vendors will find ways to satisfy demand. NAE Chicken is a case in point with major suppliers making commitments to produce NAE.

Is it not confusing to talk about antibiotic free when by regulation there is a withdrawal period for antibiotics in animals treated?

The consumer desires more transparency about what is in the product as well as how the product was produced. This trend is not going away. It is up to manufacturers and the industry to educate the consumer that judicious use of antibiotics may be appropriate in certain proteins.

Does the data reflect that if a consumer wants organic in one protein that they want organic in all? Or is it compartmentalized leaning to one or more protein over others?

Our data shows that True Believers tend to buy organic across a wide variety of categories, including protein types. Willingness and ability to pay is a strong determinant in the organic purchase decision, so Chicken is the most frequent purchase followed by Turkey.