

The American Lamb Industry Roadmap Project

An Update Report

Summer 2015



The Sheep Industry Roadmap Project

What is it and how did it start?

CWGA Exec letter

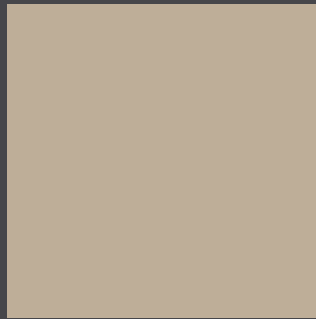
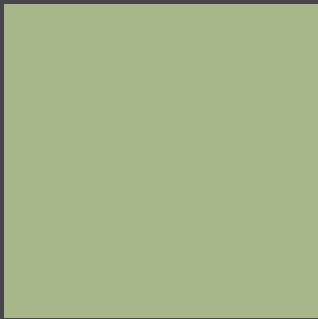
Industry meeting in Denver

Independent, unbiased third party – The Hale Group

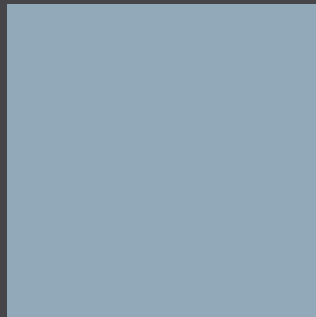
Bob Ludwig – coach

Industry segment representatives

Implementation



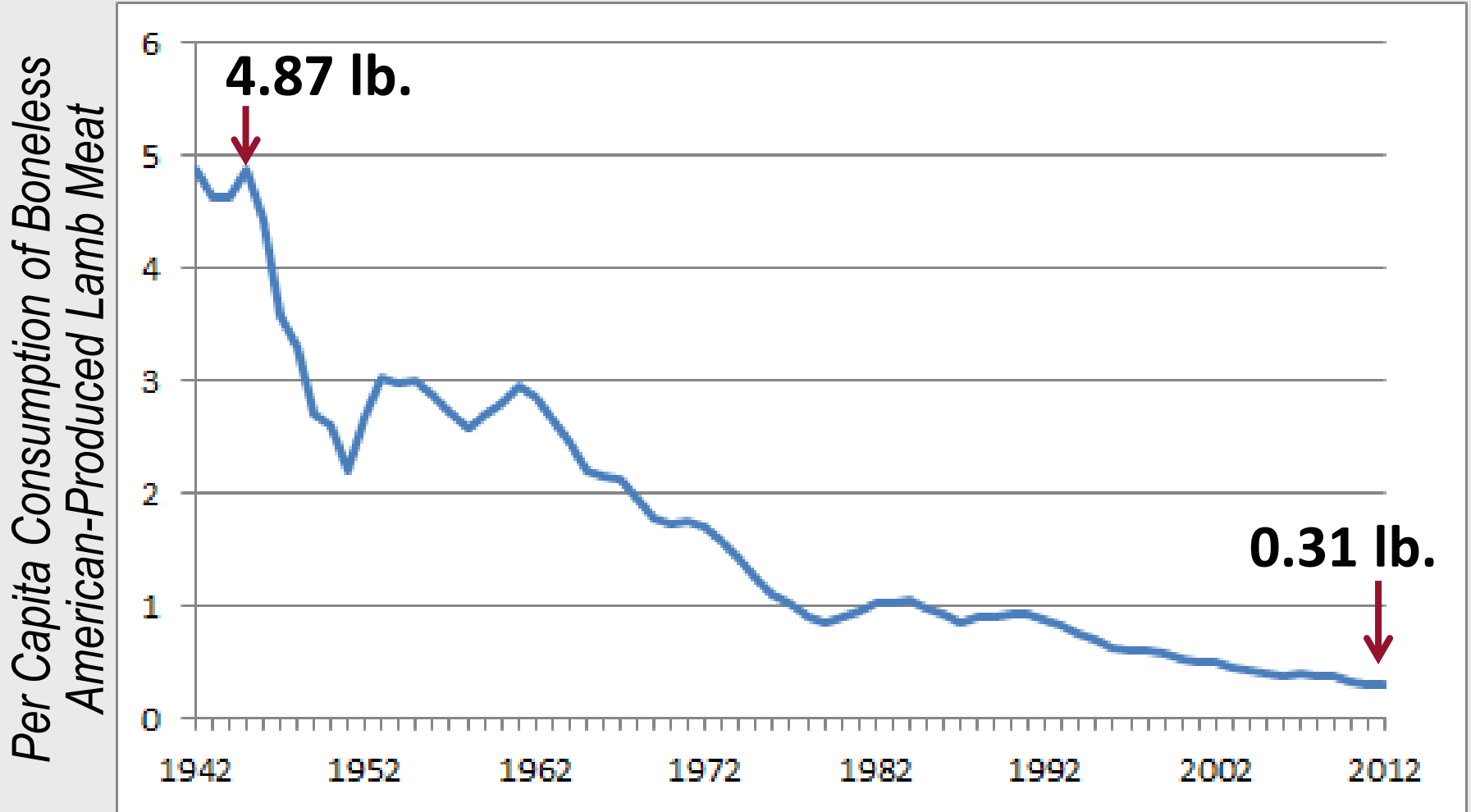
Review of the Roadmap Goals



Purpose of this Assignment

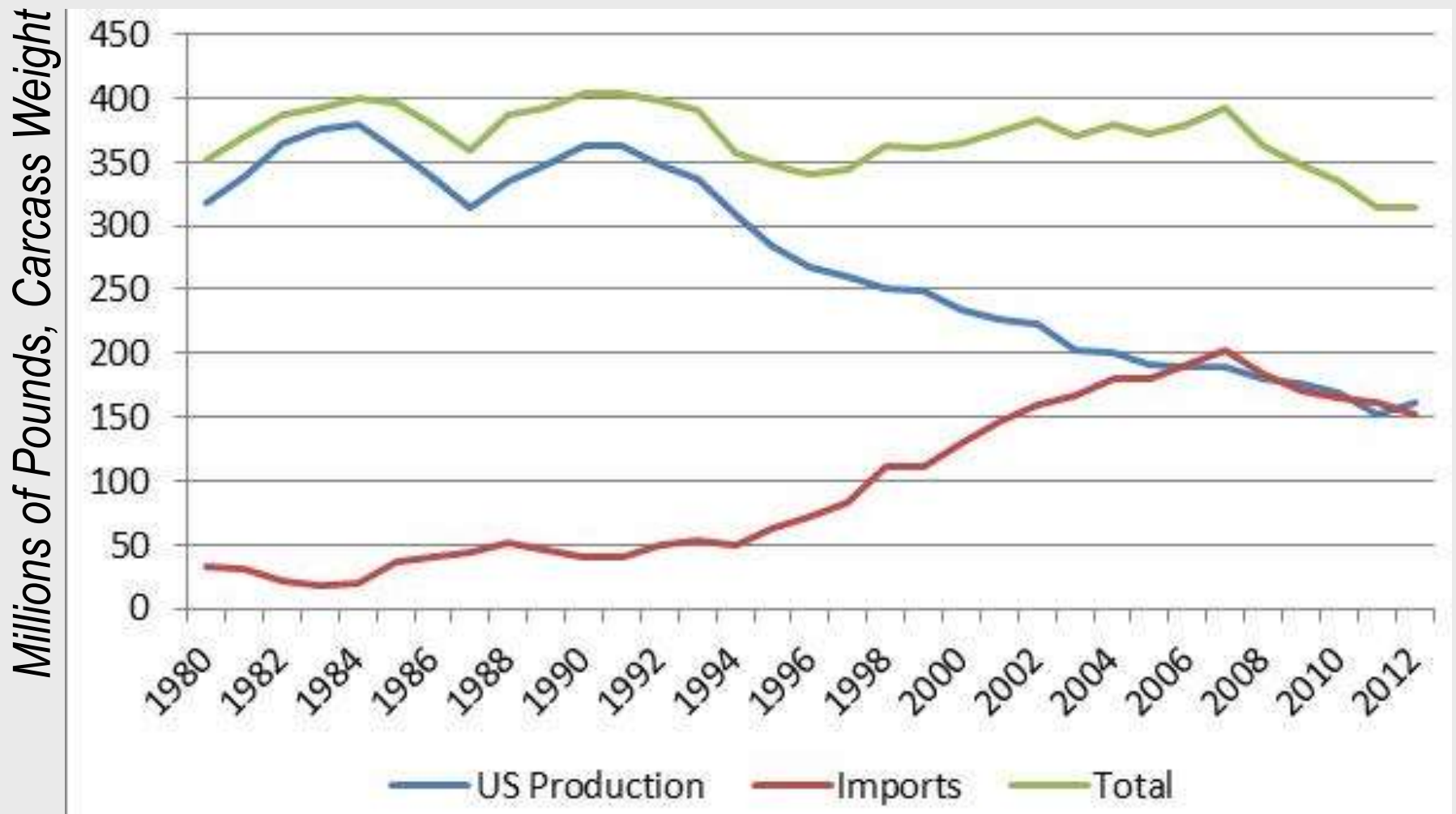
- 1. Identify and analyze the major challenges facing the American lamb industry**
- 2. Propose the most effective solutions**
- 3. Develop a strategy for the industry to:**
 - ➔ strengthen its short-term and long-term competitive advantage
 - ➔ return the industry to consistent profitability

Consumption Decline of American-Produced Lamb Meat



Source: Economic Research Service, USDA, supply and disappearance data for Federally Inspected lambs and sheep

Imports Have Eroded U.S. Market Share



Source: Economic Research Service, USDA, supply and disappearance data

A Good Value Proposition for Consumers

So what do almost all
consumers want?

- Less fat
- Superb taste
- Tenderness
- Great nutrition
- Absolute consistency

Specific consumer segments
may also want:

- Grass-fed; grain fed
- Local
- Small portion size
- Sustainable production practices
- Other specific characteristics

PRICE

20% Maybe

50% No Way

5 and 10 Years from Now without Aggressive Change

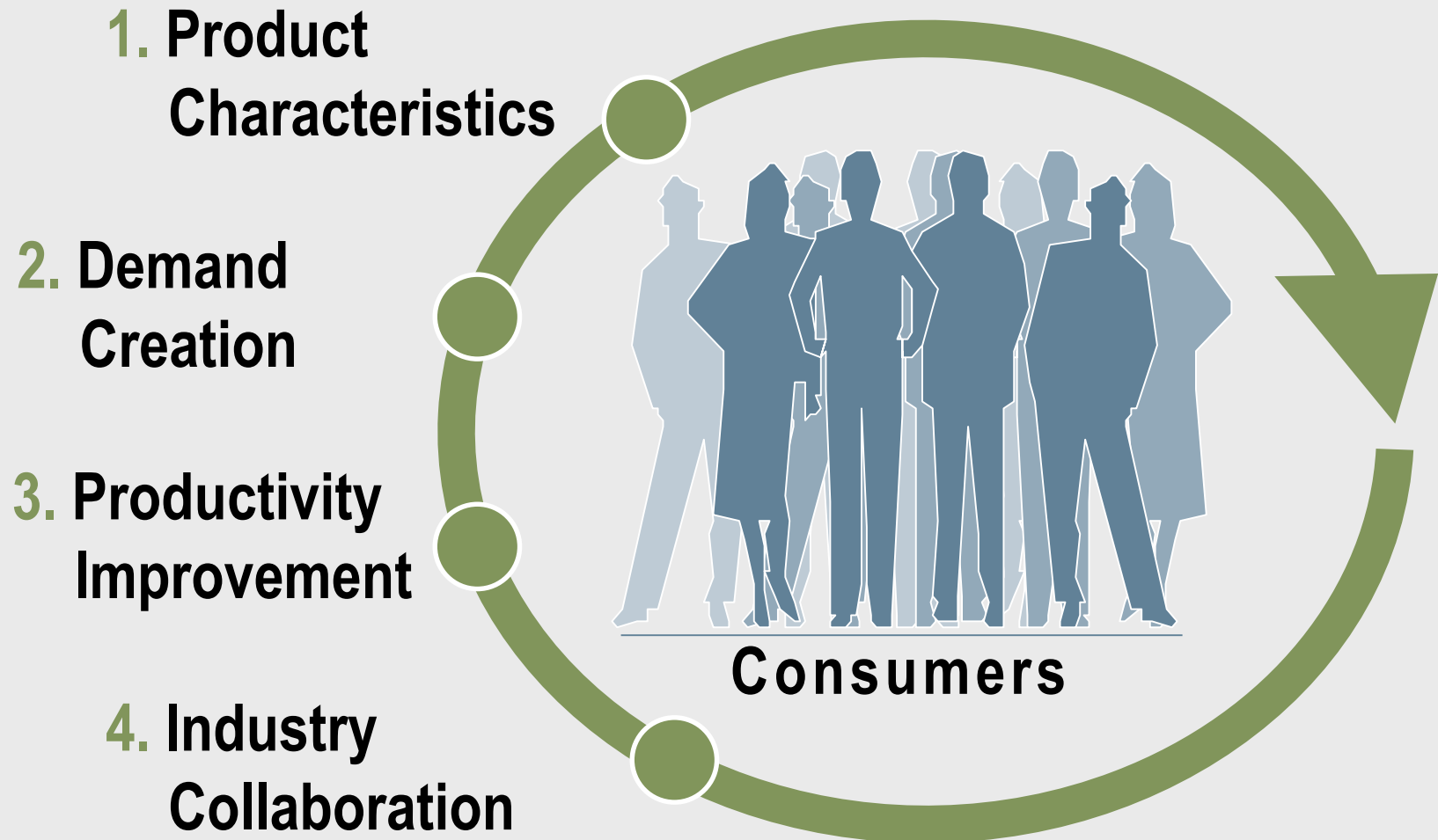
5 Years From Now

- Imports are 80% of U.S. consumption
- Many commercial producers exit the U.S. lamb industry
- The traditional marketing channel is on verge of collapse

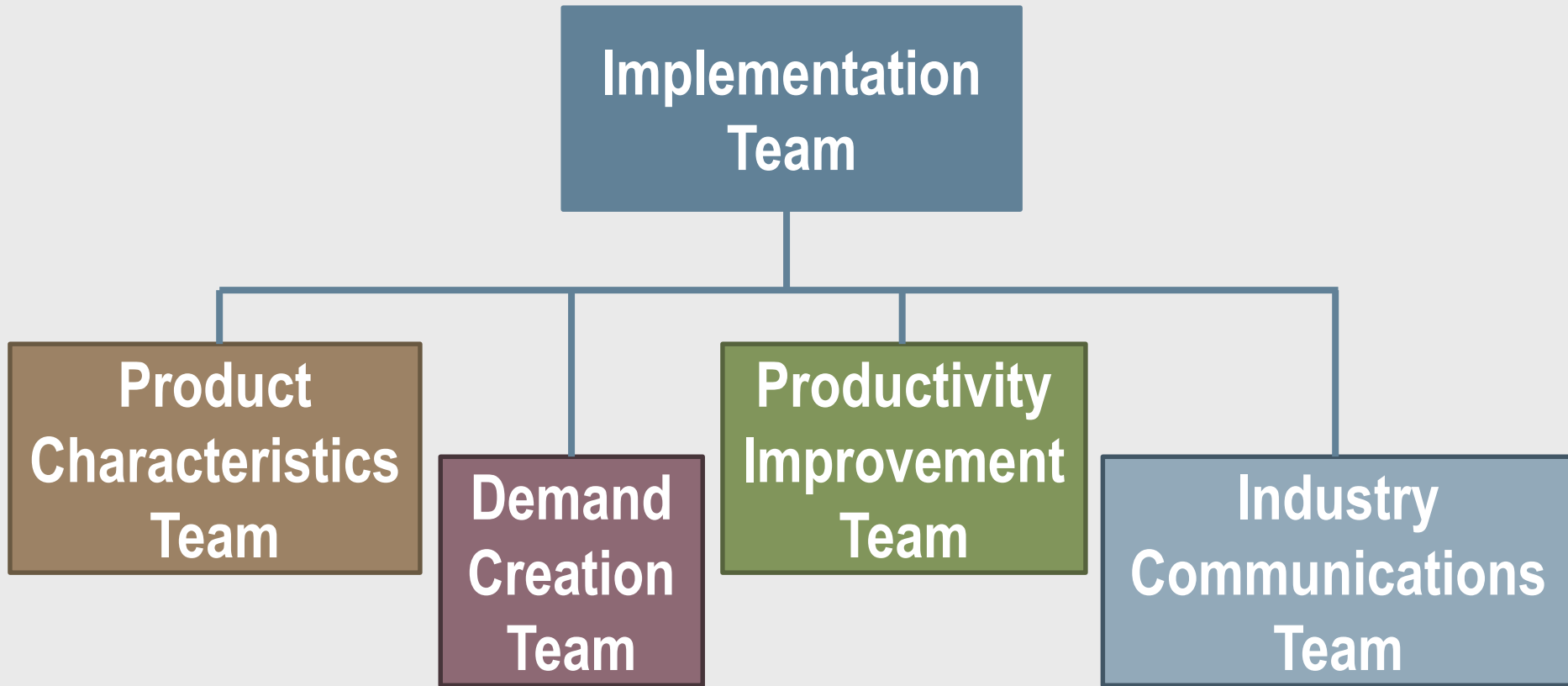
10 Years From Now

- The traditional marketing channel has collapsed
- The non-traditional marketing channel is very profitable and has grown dramatically
- Consumption of American lamb is starting to grow from very low base

How Do We Get There? ➔ Four Industry Goals

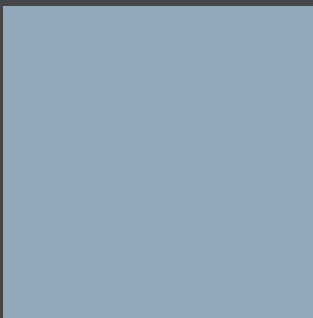


Five Teams to Drive the Roadmap





Progress in first 18 Months



Progress for the Implementation Team

1. Urging the Lamb Industry to adopt value-based pricing for live lambs and carcasses.
2. Promoting the use of electronic grading of sheep and lambs.
3. Providing wise, balanced oversight over the entire Roadmap Project.

Quotes from the Value-Based Pricing Report

- The lamb industry must change its course and it will require restructuring the marketing system.
- **Weight, in and of its self, cannot continue to be the dominant market value driver.**
- This committee is united in stressing the importance of increasing Value Based and Grid Pricing and encourages:
 - The feedback of data through the entire production chain;
 - All packers to strive to increase their grid-based pricing to over 80%;
 - Feeders and producers to use the best data available to produce the highest quality lamb;
 - Commercial and Seedstock producers to respond to these lamb quality indicators.

Authors: Cody Hiemke, Dennis Stiffler, Rick Stott, and Wes Patton.

Background for Electronic Grading

- The Lamb industry acknowledges that variability in weight, age, quality and fatness does exist.
- The current application of the USDA Grade Standards for lamb carcasses is subjective.
- They are inconsistently applied, particularly for Yield Grades.
- JBS – 58%, 52% Colorado State study.
- Therefore, a grading system that accurately classifies lamb carcasses into groups with differentiated value attributes has merit.

Source: Dennis Stiffler, presentation to the Implementation Team , August 21, 2014.

Benefits of Electronic Grading

- Cost of USDA grading may be reduced but not eliminated
- Hot carcass grading will
 - Provide grades a day earlier than current system
 - Provide the ability to sort Hot Carcasses into advantageous groups
 - Improve cooler management
 - Add efficiencies to processing
- Improved cutability prediction accuracy will
 - Allow yield optimization
 - Provide opportunity to improve the utilization of different cut-styles
 - Ensure more uniform product in the trade and support lambs' value proposition to consumers

Source: Dennis Stiffler, presentation to the Implementation Team , August 21, 2014.

Latest Developments

- Mountain States Rosen will keep the JBS unit.
- Superior will add a unit at:
 - The Denver plant
 - The new plant in Dixon
- When these are in place:
 - 61% of the federally inspected lambs
 - This will make VBP/Grid pricing more accurate and efficient
- ALB will provide financial support

Progress for the Product Characteristics Team

- Collected, analyzed, and summarized both U.S. and international research on causes of **offensive taste** in some lambs.
- Discussed and debated ways to eliminate, or greatly reduce, strong offensive taste in U.S. lamb products.
- The Lamb Quality Audit research is completed; data now being analyzed.
- ALB is financing 2 critical research projects:
 - Dr. Zerby – Mass Spec; types, ages, feed, location
 - Colorado State – sensory evaluation; electronic nose

What is Lamb?

Definition and grade of Lamb

- Beef is beef; Pork is pork, but...
- What is sheep meat called?
- How is the term lamb applied to grades
- Break joint vs. dentition

Goal is to bring a recommendation to ASI Convention in January 2016.

Components of Proposed Research on Flavor

Ongoing sampling and analysis program to determine how various production factors affect the palatability of meat

- Chronological age
- Physiological age factors
- Feeding and nutrition systems
- Breeds
- Rates of gain
- Distance traveled to harvest

Progress for the Demand Creation Team

Divided its Efforts into two Sub-Committees

- Traditional Marketing Channel
- Non-Traditional Marketing Channel

The recommendations of each sub-committee have been proposed to ALB for its 2014-15 Fiscal Year starting Oct 1, 2014.

ALB is Implementing Demand Creation Ideas

- A multi-cultural tool kit to help the industry and retailers merchandise lamb to Muslim and Hispanic consumers.
- Sponsored the American Muslim Consumers Conference in New Jersey in November 2014.
- Developed new resource materials for direct marketers.
- Where can you fit in as a producer?

ALB is Implementing Demand Creation Ideas

- Hired a branding and web design firm to update/refresh the American Lamb brand/identity and website.
- Created a social marketing editorial calendar and best practices guide for suppliers and industry partners and will be coordinating three seasonal social campaigns/contests in FY 2015.
- Continued their US Meat Export Federation membership and fund a new retail promotion for lamb and mutton in Mexico.
- Developed a Marketing Advisory Council to meet quarterly with ALB to:
 - review programs and events;
 - advise on market trends and strategic direction.

The Productivity Improvement Team

Three Priorities drove 2014 and will drive 2015:

1. Encourage Producer Productivity Groups
2. Re-launch National Sheep Improvement Program
3. Determine Sheep Research and Education Priorities

Progress for Productivity Improvement

- ASI has committed \$500,000 for three years toward this goal. A Lets Grow coordinator was hired in January 2015 to lead these efforts.
 - Grant proposals have been solicited from state sheep association to support producer groups in their state.
- With \$ help from ALB & Sheep Center, NSIP hired a new director to help with the re-launch
- ASI is developing a long-range plan for sheep research and education that will be completed by early 2016.

Progress for the Industry Communications Team

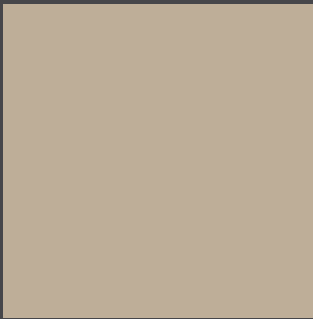
This team has the hardest job of all!

And is asking the question:

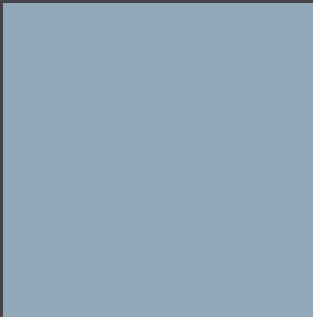
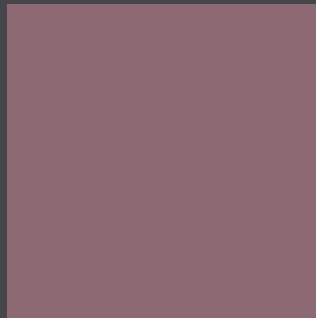
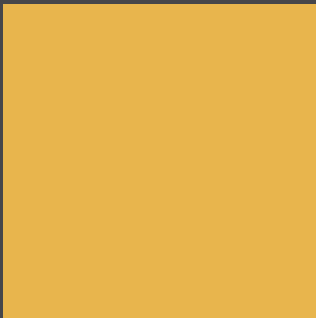
**What can we do to reduce the volatility of lamb supply,
price and quality?**

Can any of the following provide help:

- Marketing of frozen lamb meat
- Sharing of information between sectors of the industry
- Sharing of cost and price risk for freezer inventory
- Slotting of lambs for processing



Looking Ahead



Ambitious Planning

At the Sheep Convention in Reno, the Implementation Team talked about next steps:

- Are we thinking big enough?
- Where do we want to be 5 years from now? 10 years?
- Should we set really aggressive goals to stretch ourselves?
- Could we develop Big Hairy Audacious Goals (BHAGs) that the whole industry could rally around?
- What would the BHAGs look like?

The committee has started the process, and they're thinking big.

Implementation Team BHAGs

Tie these in with the goals and objectives of each team

- 1. Double the per capita consumption of lamb by 2020**
- 2. Increase American lamb share to 65% by 2020**
- 3. Export 20% of our production**

a. Key Drivers

- i.** Each industry segment focus on consumer & consistently deliver a premium product
- ii.** Each industry segment focus on reducing costs & volatility of the market

BHAGs continued

Objectives to achieve key drivers

- 1. Set high quality standards for lamb meat**
- 2. Pursue innovative marketing approaches**
 - the new frozen?**
- 3. Manage supply and price volatility**
- 4. Cost reduction to be competitive**
- 5. Expand the industry**
- 6. Develop metrics to measure change**

How can we achieve ambitious goals?

- Develop an aggressive growth plan for the U.S. sheep flock in regions of the country that have the potential to expand production.
- Convert the industry to a system of “lamb slotting,” that schedules lambs sold for slaughter within a one week harvesting window.
- Identify industry infrastructure needs and bottlenecks that prevent industry expansion; develop a plan to eliminate the obstacles within one year.

Expectations for 2015

- Big Hairy Audacious Goals for the industry.
- A long-term strategic plan to achieve those goals.
- Greater use of Value-Based Pricing for lambs.
- Use of electronic grading of lambs.
- Use the results of the Lamb Quality Audit.
- A recommended definition of “lamb” that reduces unfavorable eating experiences.

Expectations for 2015

- Greater support for direct marketers of lamb.
- Coordinated promotional messages about U.S. lamb.
- More producer productivity groups.
- A Sheep Research and Education plan.
- A revitalized NSIP.
- Answers to what we can (and cannot do) to reduce volatility of lamb supply, price, and quality.

Thanks
Questions?

Questions for You

1. **When is Ramadan?**
2. **What effect did the mad cow in the US have on lamb exports?**
3. **What effect will the completion of the sheep genome have?**
4. **How did the decline of Ugg boot sales affect the sheep prices?**
5. **How did a mild winter in Eastern Europe affect lamb prices?**
6. **How will the proposed H2A changes affect the sheep industry?**
7. **How did the drought in the SW affect the flow of lambs?**
8. **What about the drought in California?**
9. **How can the price of corn affect feeder lamb prices?**