



CHB Q&A — A Look at the Program's Success, Challenges

The Certified Hereford Beef program began as an American Hereford Association (AHA) marketing initiative in 1994, based on the findings of more than three years of Colorado State University research, which proved the superior eating quality and consistency of Hereford beef. The three-fold mission of the program was, and continues to be: 1) to provide consumers with consistently tender, juicy and flavorful beef products; 2) to enhance the marketing opportunities of food industry distributors, retailers and restaurateurs; and 3) to increase the demand for commercial Hereford-influenced cattle.

Here are some frequently asked questions about the program:

What are the CHB live animal specifications?

- 1) Cattle must have a predominately (51%) whiteface and exhibit white markings over the jaw, forehead and muzzle. White markings on any part of the hip, shoulder or side of the body such as spots, stripes or belts are not acceptable.
- 2) Cattle must be solid red, solid black or roan with a predominately whiteface. Whitefaced animals that are yellow, gray, brown, brindle, or smoke are ineligible.
- 3) Only steers and heifers of English beef-type breeding under 30 months of age qualify — an animal expressing dairy or Bos indicus type breeding is not acceptable.
- 4) To qualify, cattle may be either horned or polled. Bulls, bullocks or cows are not acceptable.

What are the CHB carcass specifications?

- 1) Slight 00 to Moderate 99 marbling score
- 2) Yield Grade 4 and leaner
- 3) 600-1,000 lb. carcass weight
- 4) No dark cutters
- 5) A maturity only

How do sales of CHB the last 10 years compare?

CHB sales grew rapidly through 2005, but since that time sales have remained relatively flat (see Fig. 1). The 8 million lb. decline from 2005 to 2006 was due to the loss of a major retailer in New England after its meat director changed. CHB LLC has initiated a restructuring of the organization this year in order to address the issue of flat sales growth. A new management team has taken over the sales strategy, and already in three months time, we are beginning to see results.

How many retail outlets are offering CHB product?

Currently 231 retail store outlets in 31 states have CHB in their meat cases (See Fig. 2). CHB product is also available in a growing line-up of food service distribution outlets (Fig. 3) that sell product to countless restaurants across the country. This has been where we've seen the most growth in clients the last two years. As the economy hopefully improves, we will see tremendous opportunity to get the CHB brand on restaurant menus across the country.

How many packing plants process CHB product?

Three plants process CHB cattle including Greater Omaha Packing Co. Inc., located in Omaha, Neb., and two

National Beef Packing Co. LLC plants, located in Dodge City and Liberal, Kan.

How many animals have been harvested the last 10 years?

During the last 10 years, 2.68 million head of cattle have been harvested through CHB licensed packing plants. Of the 2.68 million head, more than 1.59 million carcasses have met CHB specifications (see Fig. 4).

The CHB program is a powerful marketing strategy for the Association. It is difficult to measure what the annual value to the Hereford breed is by identifying more than 413,000 head of Hereford and baldie cattle for harvest and the certification of more than 243,000 carcasses whose beef is distributed to more than 36 states. I believe it would be a much different marketplace for Hereford and Hereford-influenced cattle today if we had not worked so hard to sustain the growth of CHB and the current relationships we have with our packers, distributors and retail supermarket partners. No other breed other than Angus can claim such a demand for a product.

How many years has CHB LLC had a profit?

CHB LLC has reported profitable years in three of the last 10. The first thing that every breeder of Hereford cattle needs to realize is CHB was never developed to generate a profit for the AHA. We hope for a breakeven. If we were showing major windfall profits, then we wouldn't be doing our job of using every resource available to promote the product and the program.

On average CHB LLC has borrowed \$107,000 per year the last 10 years from the AHA to support the program. During that 10-year period,

the program has generated \$ 7.6 million in revenue, all of which went back into the support of the brand and the promotion and sales efforts of the product. The investment over and above the revenue just mentioned amounts to about .67 cents per carcass certified or .40 cents per Hereford steer or heifer identified through the program. In most cases I believe that a 7 to 1 return on investment would be a homerun, but we also realize that the goal is still to do our best to breakeven each year.

To mediate deficit spending, the CHB LLC board realizes that the current royalties received from our packers from every pound of CHB beef sold are not enough to support, promote and continue to prospect new sales of CHB. When we add new business, we must also add more cost in people and promotion. Therefore, under the new management team assembled in the last three months, new revenue streams are being pursued in the areas of value-added process meats, case ready product partnership and ground beef programs that will generate additional commissions to help support the brand. Incidentally, CHB LLC has budgeted and projects a profit for fiscal year-end 2010.

How is CHB priced in the marketplace compared to Angus cuts?

CHB product is sold under two specifications: 1) the Classic product, which is a blend of Select and Choice beef, and 2) the CHB Choice program, which is predominantly a low- and mid-Choice product. The bulk of the product is sold under the Classic product

Fig. 1: Annual CHB tonnage sold 1995-2008

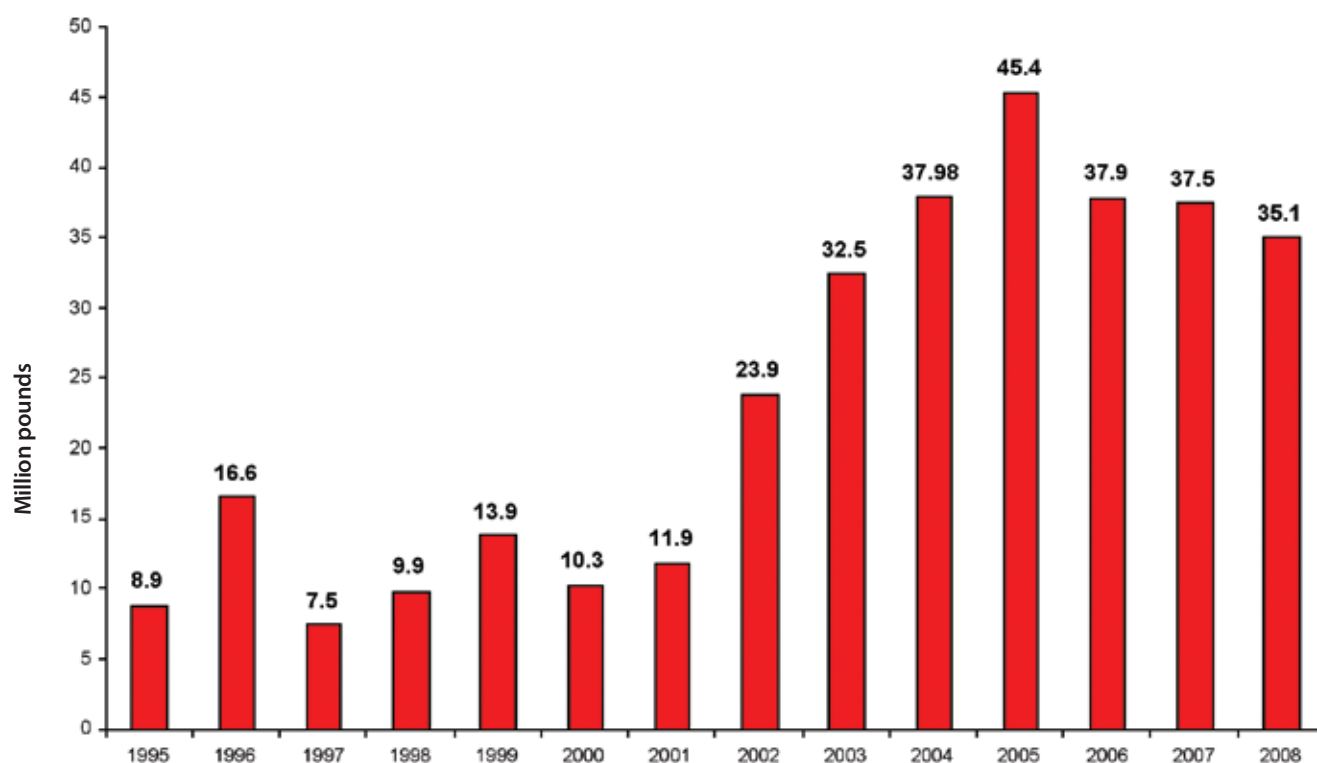


Fig. 2: Retail Stores that offer CHB product by state

Alabama	4
Arkansas	1
Colorado	5
Florida	23
Georgia	9
Idaho	12
Illinois	10
Indiana	9
Kansas	10
Kentucky	2
Louisiana	3
Maryland	4
Michigan	4
Minnesota	33
Missouri	2
North Carolina	16
North Dakota	2
New Mexico	10
Nevada	2
New York	10
Ohio	24
Pennsylvania	1
South Carolina	4
South Dakota	1
Tennessee	6
Utah	2
Virginia	2
Washington	11
Wisconsin	7
West Virginia	1
Wyoming	1

specification. Cuts from the Classic chuck and round are priced very competitively to commodity U.S. Choice beef while the cuts from the higher priced loin and rib carry a premium to U.S. Choice of 10-25 cents per lb.

Today, there are 35 different U.S. Department of Agriculture recognized Angus programs ranging in specification from low quality Standard

grade to high Choice. CHB would be much more competitively priced than the high Choice Angus programs and similar to many of the Choice Angus programs. The goal of the packer is to sell a balanced mix of cuts at a premium that will generate at least \$30 to \$35 per head of added value over and above commodity cattle.

Are the high Choice and Prime Hereford cuts sold in the CHB outlets as CHB, or are they sold in regular commodity markets?

Hereford or Hereford-influenced cattle that produce a high Choice or Prime product are sorted off into other packer brands commanding a higher premium than CHB.

Does the AHA receive a per head charge for the CHB cattle in the CHB designated feedlots?

CHB LLC does not charge feedlots for helping them locate cattle. We did at one time ask for a \$2 per head service fee, but that has been discontinued since feeders have had very tough economic times during the last year. **HW**

Fig. 3: CHB foodservice outlets

- Ashley Foods, Pa.
- Bar-W Meat Co., Texas
- Bush Bros. Provision Co., Fla.
- Capitol Meats, Md.
- Evans Meats, Ala.
- Favorite Foods, N.H.
- Food Pro, Md.
- Gourmet Ranch, Texas
- Inland Meats, Wash.
- Masters Purveyors, Fla.
- Merchants Food Service, Ala., Miss. and S.C.
- Outwest Meat Co., Nev.
- Queensgate Foodservice, Ohio
- Reinharts Foodservice, Neb.
- River City Meats, Mo.
- Robert Orr-Sysco, Tenn.
- Schiffs Food Service Inc., Pa.
- Sharon Packing, Pa.
- Springfield Grocer, Mo.
- Sysco Food Service Baraboo LLC, Wis.
- Sysco Food Service Boston, Maine
- Sysco Food Service Hampton, Va.
- Thomas O'Miller, N.Y.
- URM Food Service, Wash.
- Van Eerden Food Service, Mich.
- Wolverine Packing, Mich.
- Wotiz, N.J.

Fig. 4: CHB total cattle harvested and certified 1995-2008

