

# **FRIONA INDUSTRIES, L.P.**



## **Producing For A Brand**

### **Tri-State Beef Conference**

**August 12, 2014**

# **Friona's Numbers**

- Third largest cattle feeding co. in U.S.
- Four yards in the Texas Panhandle
- Purchase and market 750,000 head
- 15,000 head per week bought/sold
- One time capacity 300,000 head
- 190 total employees

# Focus

- Consistent supply of high quality cattle
- Consistent ration
- Utilization of capacity
- Employee buy-in

# **BUSINESS SYSTEM**

## **A Competitive Advantage For An Uncertain Industry**

- *Vertically Aligned Production System aligned with CMS*
- *Focus on a standardized high quality end product*
  - *produced by a standardized production system*

# **End Users Expectations**

## **Consistent Raw Product That Provides**

- *High Quality Grade*
- *High Fabrication Yield*
- *Consistent Tenderness*
- *Consistent Volume*



# Managing Risk

- Hedging Platform
- Timely Marketing
- Building relationships for buying feeder cattle
  - *Forward Contracting*
  - *Back grounding*

# Friona Industries, L.P.

## Hedging Platform for Operations

<u>Item</u>	<u>Appropriate Futures Contract</u>	<u>Symbol</u>	<u>Exchange</u>
Slaughter Cattle	Live Cattle	LC	CME
Feeder Cattle	Feeder Cattle	FC	CME
Corn	Corn	C	CME
Wheat	Wheat (KC)	KW	KCBOT
Silage	Corn	C	CME
Sweet Bran	Corn	C	CME
WWDG	Corn	C	CME
Natural Gas	Natural Gas	NG	NYMEX
Unleaded Gasoline	Unleaded Gasoline	RB	NYMEX
Diesel	Heating Oil	HO	NYMEX
Interest Rates (Short)	Euro Dollar Libor	ED	CME
Interest Rates (Long)	U.S. Treasury 10 Year Note	TY	CME
U.S. Dollar	U.S. Dollar	DX	CME

# Benefits To FI Branded Program


## Creation of Brand Equity

### Attributes for Differentiation

- Timely Marketing
- Source and process verification
- Consistency/uniformity of end product
- Predictable/dependable supply
- Differentiated food safety
  - HACCP controlled production/distribution system
- Differentiated eating experience
  - Tenderness
    - Electrical stimulation
    - Aging



# Rancher's Registry Brand Family

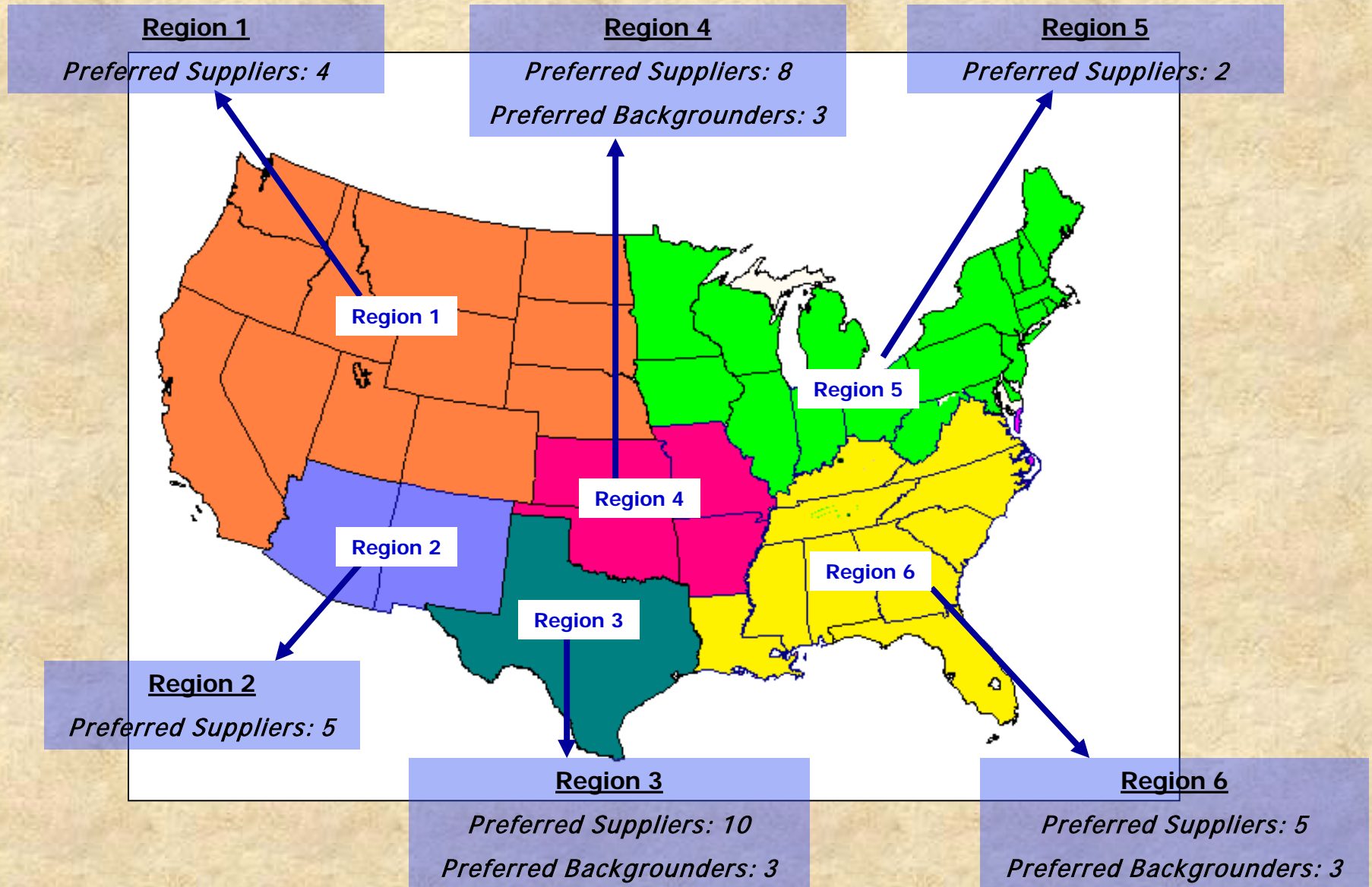
<u>LOGO</u>	<u>BRAND</u>	<u>OWNER</u>	<u>TARGET MARKET</u>
	Rancher's Registry	Cargill	U.S. Food Service
	Rancher's Reserve	Safeway	1720 Retail Stores – All 10 Divisions
	Harris Teeter Rancher	Harris – Teeter	160 Stores – Carolinas & Atlantic Coast
	Tender Ridge Angus	Spartan Stores	300 Retail Stores – Michigan
	Preferred Angus	Spartan Stores	300 Retail Stores – Michigan
	HyVee – Blue Ribbon	HyVee	300 Stores in Iowa
	Sutton & Dodge	Sutton & Dodge	160 Super Targets in U.S.

**3000 Stores & Food Service**

# **PROCUREMENT**

**The Constant Arbitrage  
For Quality, Quantity,  
and Value**

# Geographical Regions for Preferred Open Procurement





# Procurement Origin

<u>State</u>	<u>%</u>
Region 3 (Texas)	33.29%
Region 4 (OK, KS, MO, AR)	24.78%
Region 6 (Southeast US)	29.36%
Region 2 (NM, AZ)	10.41%
Region 1 & 5 (Northwest & East)	.60%

# Sourcing Feeder Cattle for a Brand

## Background

- Feed/pasture
  - *Balanced low starch diet*
  - *No high risk cattle –*
- Health
  - *Long time weaned*
  - *2 doses + modified live IBR, BVD type I & II*
  - *8Way Clostridial*
  - *Internal/external parasite control*

## Quality

- English/English x Continental
- 75% + Black hided (English)
- Steers < 750 lbs
- Hfrs < 700 lbs



# **Sourcing Feeder Cattle for a Brand**

- **Quality**
- **Tenderness**
- **Health**
- **Background**



# **What Does It Mean?**

- We can finally plan, instead of react
- We can focus on a consistent target
- We can build an organization to fit a single task
- We can fully optimize our production capability
- Size matters, but consistent size is huge



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