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# Walmart’s New Beef Plant is More Sizzle Than Steak, For Now

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## Key Points:

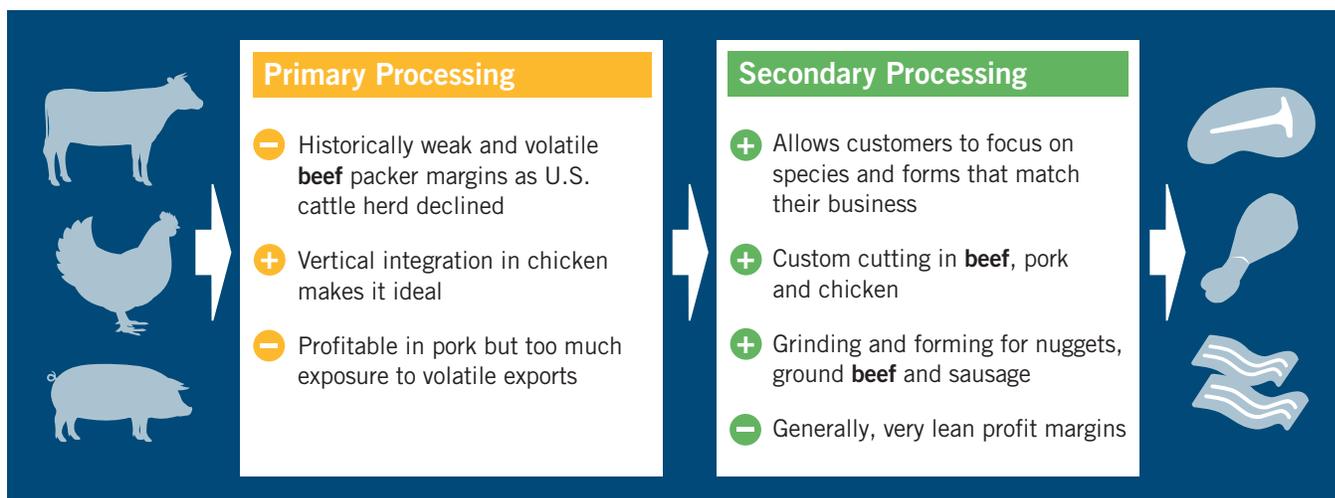
- Through Walmart’s new case-ready beef plant and Angus supply chain, the largest food retailer in the U.S. is entering the beef industry in a new and innovative way.
- The goal is to provide customers “with unprecedented quality and transparency,” but the new plant and supply chain also enables Walmart to gain valuable insights into beef production.
- Creating an end-to-end beef supply chain is Walmart’s latest step in its vertical integration strategy in food and toward its stated goal to improve the quality of its food offering.
- Walmart will need to convince customers that the attributes of this beef – beef that is hormone-free, traceable, and potentially of higher grade – make it not only worth buying, but paying a premium price for.
- U.S. cattle producers, feeders, and packers will not likely suffer any significant near-term changes from Walmart’s entry, but its success could very well lead Walmart to make a bigger move in the future.

## Introduction

In January, Walmart officially entered the beef business when it opened a case-ready beef plant in Thomasville, Georgia. The plant will cut and prepare steaks and roasts produced by Walmart’s new Angus beef supply chain for 500 stores in Florida, Georgia, and Alabama. Walmart has created an end-to-end beef supply chain, from genetics through harvesting. The aim is to “make the beef America eats better” by providing customers more transparency into what’s in their food and where it comes from, according to a company press release.

Walmart’s move into beef is similar to its 2018 move into fluid milk when it opened a new plant, and mirrors Costco’s chicken plant opening in 2019, which we wrote about in our “Redefining Farm-to-Fork” report. But Walmart’s beef strategy has more differences than similarities to these examples. First, Walmart’s creation of a beef supply chain is partly designed to appeal to consumers. Second, Walmart does not own its supply chain down to the farm level as is the case of Costco’s chicken plant.

## EXHIBIT 1: Opportunities for New Entrants into the U.S. Meat Sector



Source: CoBank

We think Walmart's current beef strategy is more of a test – not only for Walmart and its suppliers, but also its customers – that could lead to much bigger and more significant investments in the future.

### ***What's in it for Walmart and its Customers?***

The goal of the new Walmart beef plant and Angus supply chain is to provide customers “with unprecedented quality and transparency.” Walmart has announced its supply chain partners by name, including an Angus seed stock company, a feeder calf program, a cattle feeder, a cattle processor, and a third-party operator for its case-ready packing facility. The seed stock company, 44 Farms, selects for genetics to produce higher-graded beef. In addition, all cattle in the Walmart program will be hormone-free. While hormone-free beef accounts for less than 5% of U.S. beef production, it is an attribute some beef customers are looking for.

The benefits of Walmart's beef supply chain strategy aren't just for its customer. The fragmented nature of U.S. fed cattle production means traceability and visibility are inherently challenging. Walmart's move enables it to gain valuable insights critical for understanding the chokepoints and profit pools in the complicated U.S. beef production system. Walmart is learning about all of this first-hand but on a small scale.

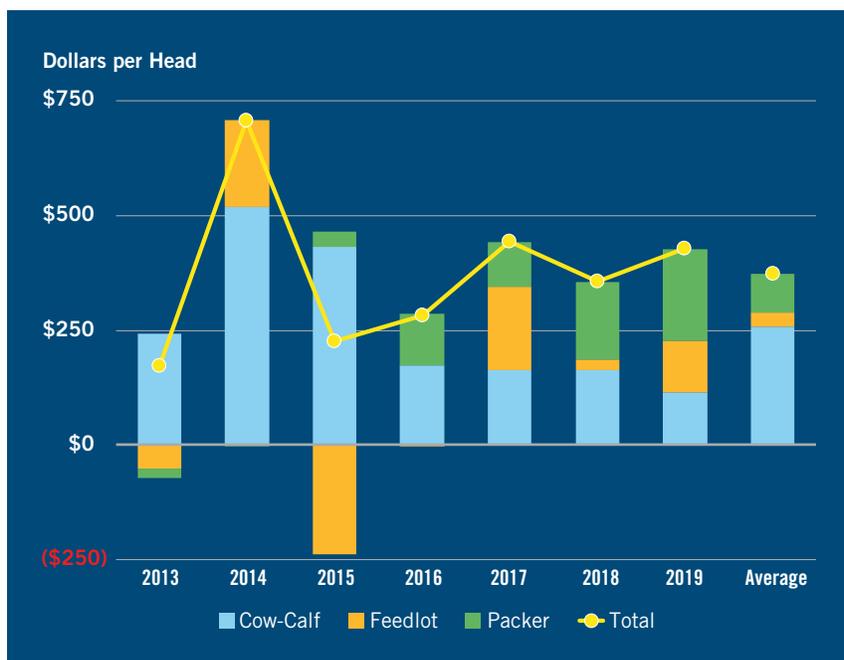
The elements that make Walmart's new beef supply chain special – genetics, feed, processing – add cost to production. Walmart is aiming to produce beef with quality attributes consumers are talking about and asking for – higher grade, hormone-free, and traceable – but are shoppers willing to pay for them? Every sector in the food industry today is working to give consumers what they ask for. The trick is to command a premium price that recoups the additional production costs.

### ***What This Says About the Current State of the Beef Industry***

While Walmart's new beef strategy could make waves for the industry in the future, in its current state we don't see it shifting the price and leverage dynamics of U.S. beef production. By CoBank's estimates, this new supply chain will account for less than 5% of Walmart's U.S. beef business and less than 0.5% of U.S. beef production.

However, the fact that the largest U.S. food retailer and beef buyer has entered secondary beef processing reveals the state of the industry overall as a complicated and opaque supply chain but with climbing packer margins (*Exhibit 1*). Beef production in the U.S. is up nearly 14% since the multi-year lows of 2015. But given the strong international demand for U.S. beef, exports have increased by 35% since 2015. This has helped to drive beef prices to all-time premiums over pork and chicken.

## EXHIBIT 2: U.S. Beef Industry Profitability



Source: Sterling Marketing, Inc.

Walmart sees opportunity and is moving up the supply chain at a time of historically high margins for beef processors. Over the last few years, there has been a clear and meaningful shift in leverage and profitability in the beef supply chain from cattle producers to the packer (*Exhibit 2*). Overall industry margins have been relatively stable the last four years, but beef packers are realizing a larger share of the profit pool. This has largely come at the cost of tighter margins for cow-calf producers.

As the beef cow cattle herd has expanded, processing capacity has not. As a result, beef packers were at capacity last year, and over capacity after an August 2019 fire took a Kansas beef plant out of commission until recently.

### What's Next for Walmart

If Walmart's new case-ready plant and Angus supply chain succeed, it could mean Walmart takes another step up the supply chain towards the producer. That could be in the form of harvesting fed cattle, as Costco has done in chicken, but it could also be via a joint venture with a current packer.

Walmart has already demonstrated that it sees the advantage in partnering with leaders who have know-how, as it brought in a third party to operate its new case-ready plant. But before deciding where Walmart could go from here, it's key to understand what determines success for its current initiative. Unlike Costco's new chicken plant, where the goal was to address supply chain challenges ranging from costs to product specifications, Walmart's stated goal for the Angus supply chain is to "improve the quality of its food offering." To offset the additional cost of production, these Walmart-produced steaks and roasts will need to carry a premium price.

### Conclusion

Walmart will need to show customers that the attributes of this beef make it not only worth buying, but paying a premium price for. Grocery accounts for over half of Walmart's U.S. revenue, so it makes sense for Walmart to look to food as a way to increase the share of its current customer's food budget and possibly attract new customers. Costco, which offers a large selection of USDA Prime grade beef, is a great example of this strategy. This strategy has been so successful that today Costco is the largest retailer of USDA Prime beef in the country, demonstrating it has the customers willing and able to pay the premium prices.

Walmart's move up the beef supply chain indicates that potential new entrants see opportunity to add value and capture margin – a reality that the rest of the supply chain should expect more of in the future. Other retailers will be watching how Walmart fares. However, only the strong have survived beef industry consolidation over the past few decades, and any new entrant will need to bring something new that enables it to disrupt the industry and do so profitably. ■



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