

Breakfast Sausage Market Analysis

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Issue

One of Cargill Pork's Innovation Customers, Wakefern, expressed interest in purchasing ground pork and sausage products. In considering market entry, research on the category, competitive environment, and opportunity for entry are needed to formulate a response.

Objective

Make next step recommendations to marketing team on breakfast sausage market entry using antibiotic free pork trim and the Good Nature brand.

Situational Analysis

Primary Target

Retailers who Cargill Pork currently does Good Nature business with and is open to using our brand.

Prospective Retailers

Wakefern, Innovation Customer, approached Cargill Pork with the idea of offering ground pork or sausage. We are looking into the market because there is a potential for increased sales as well as strengthening our partnership with the retailer.

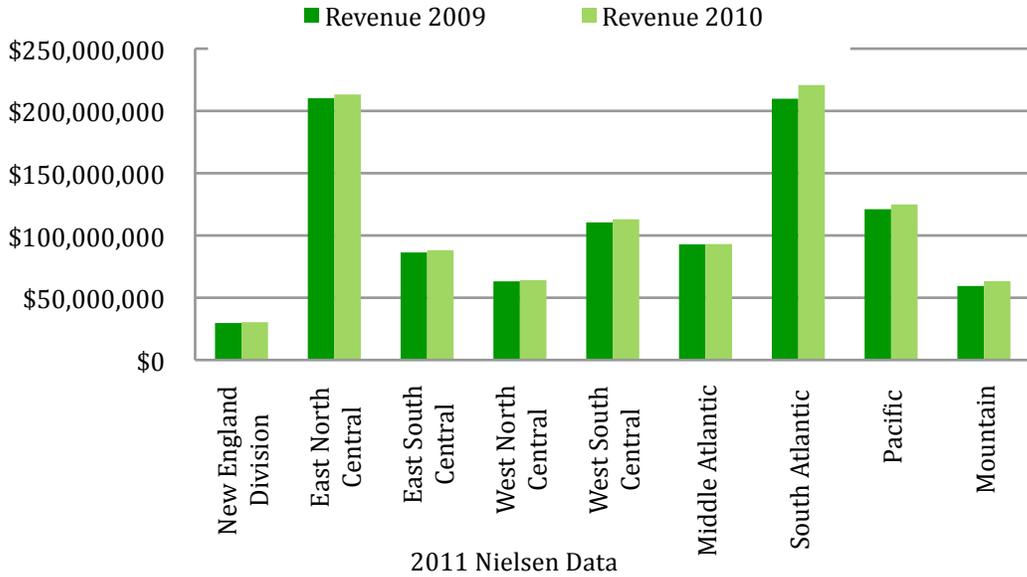
Wakefern stores are located in eight northeastern states under the Shop Rite and Price Rite banners, with a total of 260 stores. They boast 2.5 million square feet of grocery and non-food warehousing. Wakefern is the largest retailer-owned cooperative in the United States with the advantage of full service, in-house advertising and marketing teams.

HEB purchases a very large amount of Good Nature product, being our second largest brand buyer. Their stores are present in 155 communities across Texas and Mexico. One of HEB's banners, Central Market, falls into the "foodie" store category, making these stores a great place for Good Nature sausage.

BJ's is another high volume purchaser of Good Nature product as our third largest brand buyer. Headquartered in Westborough, Massachusetts, BJ's has 190 locations in 15 eastern states.

BJ's and Wakefern stores are located in high sausage purchasing areas, according to the Nielsen data below. The east north central region is the second highest in breakfast sausage revenue. All three potential targets already have customers that know and trust the Good Nature brand. Since we have worked closely with these retailers in the past, we should be able to continue to build our partnership through a more diverse product portfolio.

Breakfast Sausage Sales by Region

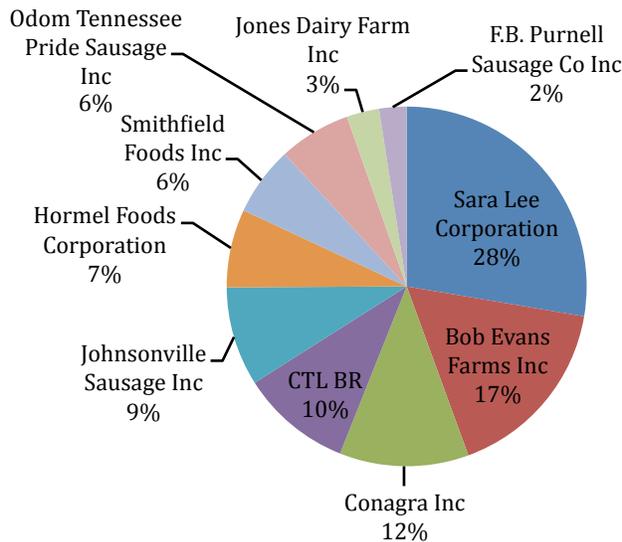


Competition

Sara Lee Corporation breakfast sausage claims the largest share of the breakfast sausage market. Their brand, Jimmy Dean, not only boasts a full line of breakfast sausage products, but also the most popular product in the market. Jimmy Dean’s regular flavor, frozen, breakfast sausage roll claimed sales of nearly \$70 million in 2010, according to Nielsen Food and Drug Mass Merchandisers data. The Jimmy Dean brand offers just one natural option, an all natural, regular flavor, pork sausage chub.

Other top market share holders, Bob Evan’s, Johnsonville, and Smithfield, offer no natural option. Odom’s Tennessee Pride offers all natural, fully cooked, turkey breakfast sausage links and patties.

2010 FDM Top 10 Breakfast Sausage Shares

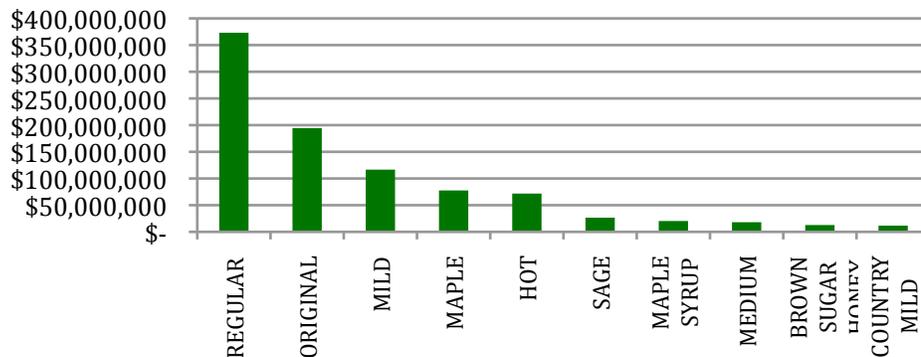


Industry

According to Highbeam Business, there were 1,291 establishments in the United States feeding the sausage and prepared meat industry in 2010. These businesses employ approximately 63,336 workers. The food processing business is an opportunity for risk management as it is less vulnerable to commodity price fluctuations. Highbeam also states that processing companies can earn up to ten times as much on every dollar as those companies that strictly slaughter.

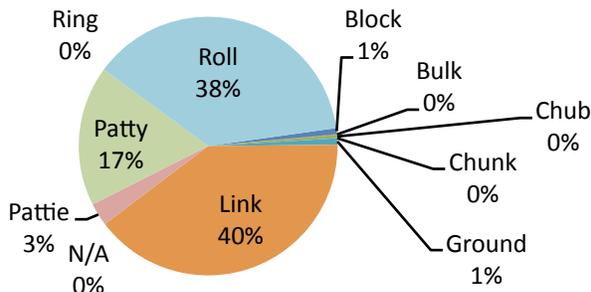
Differentiation in breakfast sausage comes from offering new flavors and varying regional preferences. Original flavor sausage made in the eastern United States can taste very different from original flavor in the southern states. The top five flavors are: regular, original, mild, maple, and hot. While customers appreciate options, according to 2010 Nielsen data, pork is the meat of choice and dominates the breakfast sausage market.

FDM Top 10 Flavors by Sales



Breakfast sausage can be formed and packaged in a variety of ways. Based upon Nielsen's 2010 breakfast sausage FDM data, links are the most popular breakfast sausage form. Roll form is not far behind. Patties are in the top three, but do not make a strong showing.

2010 FDM Breakfast Sausage Form Sales



Sales of breakfast sausage totaled nearly \$1 billion in 2010, according to Nielsen data. The industry is also expected to see greater demand in the coming years. QSR Magazine forecasts a 13 percent increase in the breakfast market by 2014.

Potential Collaborators

Schweigert Processing Plant – Albert Lea, Minnesota

Value Added Meats – Retail Business Unit

- 538 miles, 9 hours from Wichita, KS
- 229 miles, 4 hours from Ottumwa, IA
- Batch size capabilities and restrictions could cause a problem
- Potential scheduling issue: ABF products must be made first
- Could they handle 15,000 more pounds?
- Do they have room for packaging and box storage?
- Opportunity to strengthen partnership with team
- Facility only has breakfast sausage capabilities
- CVAM could potentially be concerned with cross protein contamination

Wisconsin

- Have been making sausage a very long time
- Facility is not far from Ottumwa, but it is far from Wichita
- Low population density in the surrounding area
- High freight costs
- Facility is capable of dinner, breakfast, and ground sausage

Kansas City

- Location is equal distance from coast to coast
- Very close to Ottumwa and Wichita
- High line-time opportunity
 - Opportunity to easily negotiate cost to us if we offer high volume
- Good partner
- Facility is capable of dinner, breakfast, and ground sausage

New Jersey

- High transportation cost in time and money
 - Six day transit
- High population density and accessibility through I-95 corridor
- Current partner
- Able to ship nationally
- Facility is capable of dinner, breakfast, and ground sausage

SWOT Analysis

Strengths

- Established, recognizable Good Nature brand is manageable, trusted, and decreases packaging costs
- Breakfast market is strong. On average, Americans eat breakfast 5.3 times per week
 - According to the Institute of Food Technology

Weaknesses

- Uncharted territory for Cargill Pork
- Entering a heavily controlled breakfast market
- Less-than-convenient packaging will hurt us at breakfast during the week

Opportunities

- Enter a high volume, high demand niche market with an established brand
- Increase ABF carcass value which has been previously lost to commodity trim

Threats

- Studies show that there is a heightened risk of salmonella and *Toxoplasma gondii* in ABF hogs
 - According to Pork Magazine August 2008 – Natural Pork, Not So Clean Cut
- Competitors have a few natural options which they may expand on in the near future

Market Segmentation

Consumer Segmentation

The customer purchasing Good Nature breakfast sausage will be diverse in age and have a variety of reasons for making the natural choice. According to the National Pork Board's review of sausage consumption, what sausage consumers have in common is that they prefer to eat it at breakfast. They also state that in-home breakfast consumption increased 21 percent from 1998 to 2007.

The National Hot Dog & Sausage Council reported that large, young, low income families consume the most breakfast sausage. Consumers looking for the natural option span all age ranges and income levels. However, maturing families with adults between 30 – 40 years old are the core customers. These families are committed to a healthy lifestyle with a stable income to support their natural food choices. Families with parents in the 20 – 30 yr old range also make up a large part of the consumer market. These adults grew up during a time when environmental awareness and obesity were at the forefront of health issues. They want their children to develop good eating habits with them.

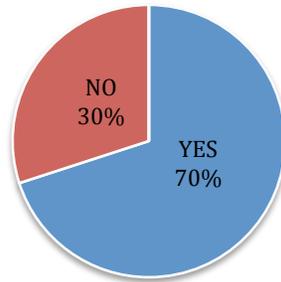
The top breakfast sausage consuming cities, according to the National Hot Dog & Sausage Council, are Baltimore, Washington D.C., Chicago, Cincinnati, and Dayton.

Business Segmentation

Good Nature is part of a niche market which is present in every region, according to Cole Fletcher, Sales and Business Development Manager. The natural food niche market is growing as more and more customers are searching for a healthier option. Many companies have not taken the opening to enter the natural sausage market. Cargill Pork has the opportunity to be the natural sausage option that customers turn to when they are looking to make the healthy choice in the self or full service case.

Healthier Sausage Demand

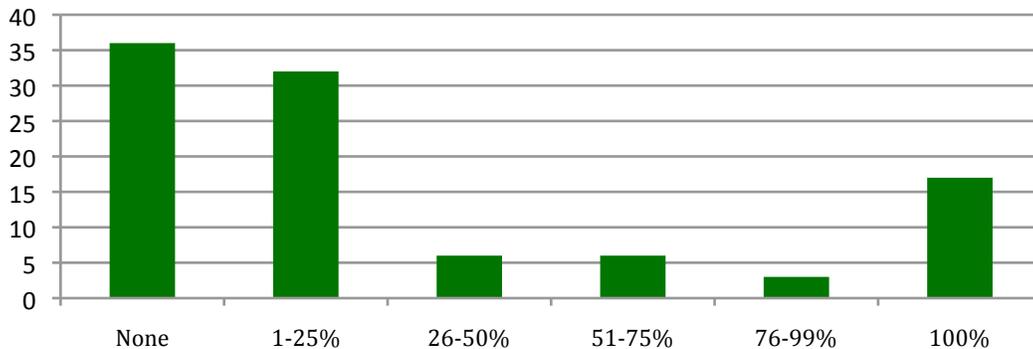
Have you seen a demand for "healthier" sausages?



National Provisioner Study & BNF Market Research:
Sausage processing employee responses

All Natural or Organic Products

What percentage of your sausage products are all-natural or organic?



National Provisioner Study & BNF Market Research:
Sausage processing employee responses

Profitability

Opportunity for Conversion

There is an opportunity to convert the loss of profit we experience by discounting ABF trim to commodity trim, which results from lack of ABF trim demand. Cargill sells approximately 25,000 pounds per week of ABF trim at commodity trim price.

| | | |
|----------------|------------------|------------------|
| Commodity Trim | | |
| | 72% Lean | \$1.00 per pound |
| | 42 % Lean | \$0.74 per pound |
| | Boneless Picnics | \$1.08 per pound |
| | Average | \$0.95 per pound |

| | | |
|----------------------|--|------------------|
| Antibiotic Free Trim | <i>Trades at approximately \$0.20-\$0.30/lb over commodity trim prices</i> | |
| | 72% Lean | \$1.30 per pound |
| | 42 % Lean | \$1.04 per pound |
| | Boneless Picnics | \$1.38 per pound |
| | Average | \$1.24 per pound |

| | | |
|-------------------------|---|------------------|
| Antibiotic Free Sausage | <i>Trades at approximately \$0.40-\$0.50/lb over commodity trim</i> | \$1.45 per pound |
|-------------------------|---|------------------|

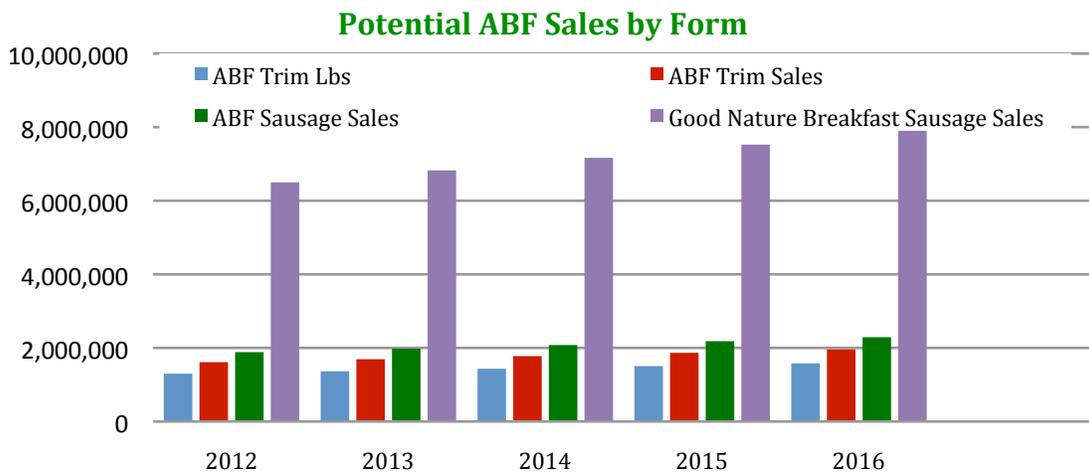
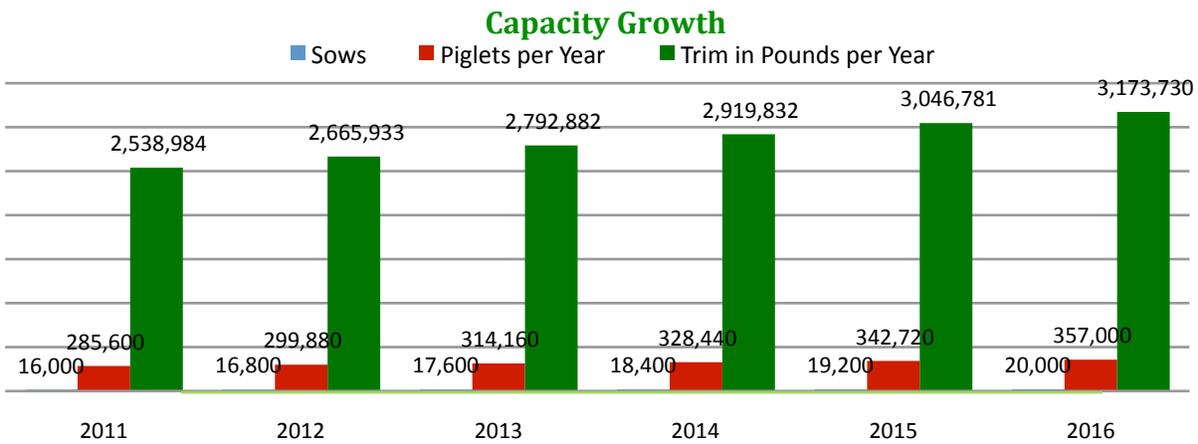
If we sold all 25,000 pounds of ABF trim that is presently being sold as commodity trim as ABF breakfast sausage, Cargill could increase net profit as much as \$650,000 per year (see Appendix). This is assuming we sell sausage at \$1.45 per pound to a co-packer to package the product for retail. Packaging the sausage ourselves as a case-ready product, we could increase our sales even further. If we sold all 25,000 lbs of ABF trim as Good Nature Breakfast sausage, at \$5.00 per 16 oz. package, we could see revenue of \$6,500,000 per year.

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Time | 1 | 2 | 3 | 4 | 5 |
| Trim (lbs) | 1,300,000 | 1,365,000 | 1,433,250 | 1,504,913 | 1,580,158 |
| Revenue | \$ 6,500,000.00 | \$ 6,825,000.00 | \$ 7,166,250.00 | \$ 7,524,562.50 | \$ 7,900,790.63 |
| Cost of Goods Sold | \$ 613,210.00 | \$ 643,870.50 | \$ 676,064.03 | \$ 709,867.23 | \$ 745,360.59 |
| Boxes | \$ 130,000.00 | \$ 136,500.00 | \$ 143,325.00 | \$ 150,491.25 | \$ 158,015.81 |
| Casing | \$ 39,000.00 | \$ 40,950.00 | \$ 42,997.50 | \$ 45,147.38 | \$ 47,404.74 |
| Packaging | \$ 294,710.00 | \$ 309,445.50 | \$ 324,917.78 | \$ 341,163.66 | \$ 358,221.85 |
| Shipping/ Transport | \$ 52,000.00 | \$ 54,600.00 | \$ 57,330.00 | \$ 60,196.50 | \$ 63,206.33 |
| Co Packer Handling | \$ 97,500.00 | \$ 102,375.00 | \$ 107,493.75 | \$ 112,868.44 | \$ 118,511.86 |
| Capital Investments | \$ 250,000.00 | \$ 37,500.00 | \$ 37,500.00 | \$ 37,500.00 | \$ 37,500.00 |
| Machinery/ R&P | \$250,000 | \$ 37,500.00 | \$ 37,500.00 | \$ 37,500.00 | \$ 37,500.00 |
| Gross Margin | \$ 5,636,790.00 | \$ 6,143,629.50 | \$ 6,452,685.98 | \$ 6,777,195.27 | \$ 7,117,930.04 |
| NPV | \$ 5,124,354.55 | \$ 5,077,379.75 | \$ 4,847,998.48 | \$ 4,628,915.56 | \$ 4,419,674.54 |

Sales Gains

In 2010, breakfast sausage sales in the FDM category totaled \$991,813,325, or 324,015,572 pounds, according to Nielsen data. Cargill currently has a 0.6% share in the market with turkey breakfast sausage under Willow Brook, Pride of the Farm, Shady Brook Farms, and Honeysuckle White brands.

A long-term goal could be to increase the sow herd we use to supply our ABF hogs to capacity, producing 2,356,200 lbs of ABF trim. Currently, Cargill Pork has 16,000 sows, but has a capacity to house 20,000, according to Nate Snyder, Account Manager. By growing our herd by 800 sows each year, we could reach capacity in five years. The growth rate in trim is about 5 percent per year.



Re

| | ABF Trim Lbs Available for Sausage | ABF Trim Sales | ABF Sausage Sales | Good Nature Breakfast Sausage Sales |
|-------------|------------------------------------|-----------------|-------------------|-------------------------------------|
| 2012 | 1,300,000 | \$ 1,612,000 | \$ 1,885,000 | \$ 6,500,000 |
| 2013 | 1,365,000 | \$ 1,692,600 | \$ 1,979,250 | \$ 6,825,000 |
| 2014 | 1,433,250 | \$ 1,777,230 | \$ 2,078,212.50 | \$ 7,166,250 |
| 2015 | 1,504,913 | \$ 1,866,092.12 | \$ 2,182,123.85 | \$ 7,524,565 |
| 2016 | 1,580,158 | \$ 1,959,395.92 | \$ 2,291,229.1 | \$ 7,900,790 |

solution

Based upon the data collected, it is recommended that Cargill Pork enter the sausage market with Good Nature frozen, regular flavored, breakfast sausage links.

By developing this product, we are not only increasing Cargill Pork sales, but also providing a solution to an innovation customer.

The breakfast sausage market is heavily controlled by private, well-branded products. Part of successfully entering the market will be to provide consumers a product from a brand they already trust. Good Nature is that brand. We minimize packaging costs by using one brand and packaging method for our entire Good Nature breakfast sausage product. By using store brands, we would need to create more labels and work with packaging requests.

Based on store visit data, consumers prefer to buy breakfast sausage in the self-service case. Case-ready sausage would also reinforce branding. ABF would allow us to enter a niche, high demand market segment present in every region.

Cargill would have to partner with a co-packer to decrease costs which means risk, freight costs, and increased monitoring. Schweigert Processing Plant, Value Added Meats-Retail Business Unit, in Albert Lea, MN should be considered as the first option for breakfast sausage production. By working within Cargill Inc., we can decrease risk. Working with CVAM would allow greater utilization of Cargill resources and strengthen team relationships. Cargill Pork needs to discuss collaboration possibilities with CVAM. Complete costing also needs to be factored.

Resources

Highbeam Business – “Sausages and Other Prepared Meat Sausages”

<http://business.highbeam.com/industry-reports/food/sausages-other-prepared-meat-products>

The National Hot Dog & Sausage Council – “The Size and Scope of the U.S. Sausage Market in 2010”

<http://www.hot-dog.org/ht/d/sp/i/38583/pid/38583>

Top 10 Food Trends, Institute of Food Technology

www.ift.org

Miller, Marlys; Pork Magazine August 2008 – Natural Pork, Not So Clean Cut

2010 Nielsen Data, Breakfast Sausage market

| | | |
|-------------------------------------|-----------|------------------------|
| McMullin, Doug – Purchasing Manager | Pork | Ottumwa, Iowa |
| Montgomery, Brian – Brand Manager | Pork | Wichita, Kansas |
| Niles, Donna – Brand Manager | Pork | Wichita, Kansas |
| Snyder, Nate – Account Manager | Pork | Russellville, Arkansas |
| Pooser, Frank – Purchasing Manager | CVAM-Beef | Marshall, Missouri |

Appendix

$\$0.50$ (Max ABF sausage) + $\$0.95$ (Average commodity trim) X 25,000 lbs (excess ABF trim) =
 $\$36,250$ per week X 52 weeks = $\$1,885,000$ per year.

$\$.95$ (Average commodity trim) X 25,000 lbs (excess ABF trim) = $\$23,750$ per week X 52 weeks =
 $\$1,235,000$ per year

$\$36,250$ per week (ABF sausage) - $\$23,750$ per week (ABF trim sold as commodity trim) = $\$12,500$
Net Profit per week X 52 weeks = $\$650,000$ per year

$\$5.00$ (ABF sausage retail price) X 25,000 (excess ABF trim) = $\$125,000$ per week X 52 weeks =
 $\$6,500,000$ per year

