

CAB CONNECTION

So little Select beef, so few care

by Paul Dykstra, Certified Angus Beef LLC



Producing what nobody wants is hardly a solid business plan.

It seems doubtful anyone

knowingly does that, but without paying attention to shifts in the market, it can be easy to assume what worked when you started still works now.

When it comes to beef, I'm talking about the Select

grade. It's hard to argue there's ever been true demand for USDA Select beef, rather than simply a price point for those indifferent to quality. But indifference has left the market.

Supplies down, price down

High-quality, premium branded beef would offer little value to cattlemen were it not for price differentiation. Opportunities to receive a premium for higher quality at every level drive the system.

For decades, the beef supply chain has used the Choice-Select price spread as the standard for measuring market demand for beef

cuts. A wider spread signals strong demand for marbling, while a narrow spread suggests weaker demand for the same.

We don't often focus on Select carcass trends. That's not exactly our space. However, it is informative to give them a look now and again in the face of shrinking

supplies of that grade.

During the past decade alone, USDA Select carcass production has

fallen by nearly 50% in relation to USDA Choice and USDA Prime. Through November 2020, the Select proportion was 13.8% of fed-cattle carcasses, down from the 2019 total of 16.9%.

As we look at demand for Select beef, it's important to realize supplies have dramatically decreased. Price and volume are the two drivers that define demand.

Competing with No Roll

With Select supplies becoming smaller and smaller, we might assume scarcity would spur prices higher, given healthy demand. Fig. 1 doesn't specifically define demand for Select beef, but it does show an interesting relationship between Select and No-Roll carcass cutout values.

Fig. 1: Cutout price spread, USDA Select vs. No Roll

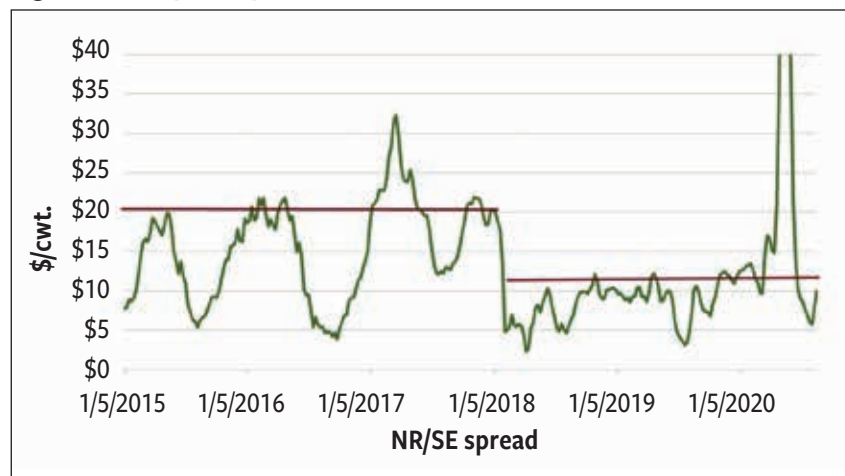
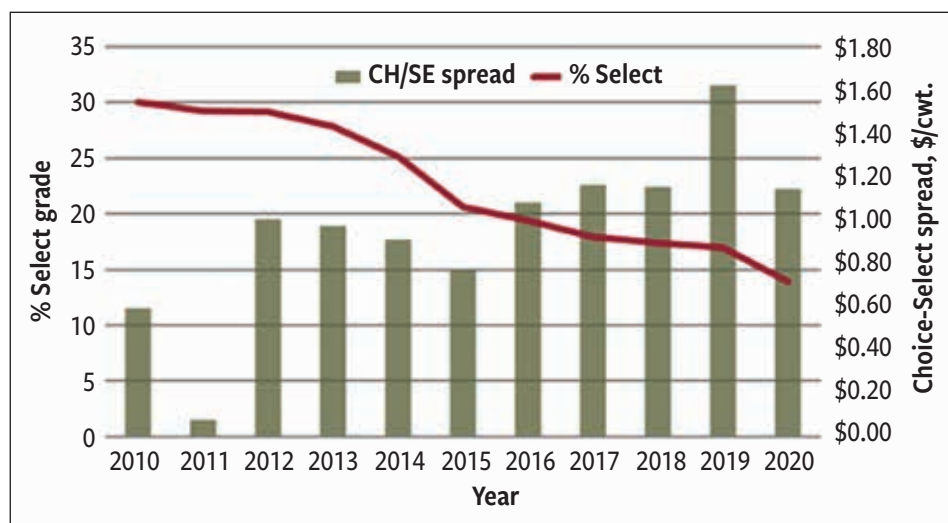


Fig. 2: Cutout price spread, USDA Choice vs. USDA Select



No-Roll carcasses are practically devoid of marbling, consequently receiving no grade at all. The chart shows that during the past two years, with the exception of this May, the spread between Select and No Roll has narrowed. Highs in that price spread that previously touched \$20 per hundredweight (cwt.) were

reduced to \$12 per cwt. beginning in 2018. The lows in the comparison are also slightly lower in recent years, while the range has narrowed, too.

On the flip side, the Choice-Select spread showed a widening trend (see Fig. 2) as Select supplies fell lower.

Consumers want marbling

This suggests Select-grade beef products are being met with less and less demand. The U.S. retail sector has embraced higher-marbling beef, especially with greater and growing access. Not only has Choice



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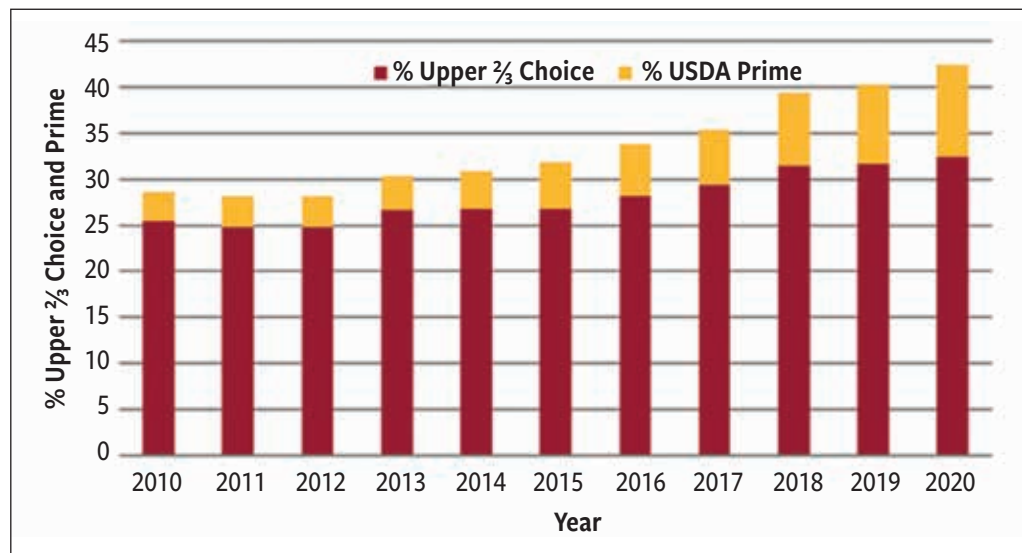
surpassed 70% of the fed-cattle supply but the *Certified Angus Beef*[®] (CAB[®]) brand is often 20% of the total, while Prime has been as high as 12%. Greater availability of premium beef is key to retailers' ability to feature high-quality beef and count on a consistent supply in volume.

Stop and think about that. This year, the percentage of cattle grading top Choice and Prime will add up to more than 40% of fed cattle (see

Fig. 3). At the same time, combined cutout premiums for Prime and CAB continue to hold above \$30. That's even while a significant portion of foodservice and international business has been sidelined due to COVID-19.

As demand for quality continues to increase, both domestically and in international markets, Select

Fig. 3: Percentage of cattle grading Upper 2/3 Choice and Prime



starts to find itself in a bit of a “no man’s land.” It’s no longer the low-price option when compared to

product from other countries, and it lacks the quality and performance compared to other domestic

Hitting 100% Choice on loads of cattle is not the gold standard it once was. Low-Choice is no longer a premium product, but the low-water mark once anchored by the Select grade.

product, especially premium Choice and Prime.

With Select product devalued to this extent and representing a shrinking category, we need to embrace the change.

Hitting 100% Choice on loads of cattle is not the gold standard it once was. Low-Choice is no longer a premium product, but the low-water mark once anchored by the Select grade. Producers and end users alike should begin their beef quality conversations with

specification-based premium Choice and Prime branded products. This is the “new normal,” the key to demand today and tomorrow.

Producing what people want is a solid business plan. |

Editor’s note: Paul Dykstra is assistant director of supply management and analysis for CAB.