Common Ground

Margin solves many problems.

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Angus has long been known as *The Business Breed,* and no business fundamental is more important than profit margin. Profit margin is defined as the difference between the revenues and expenses of a business. Business 101 teaches us that without margin, a business cannot be sustained over time.

According to CattleFax data, from 1980 to 2000, the average annual margin shared across cow-calf, stocker, feeder and packer segments was $32 per head. While that's an average figure, and some operators were doing better than others, the overall industry profitability picture was bleak for those two decades.

Beef demand was eroding. Our industry had more cattle grading USDA Select than Choice and Prime and, not surprisingly, one in four steaks was unacceptable to the consumer. The value of our end product was just barely worth more than the cost to produce it.

Bucking the trend

Then something happened. Cattlemen stopped producing a product they *hoped* someone would buy, and began listening to the consumer. The consumer wanted flavor, juiciness and tenderness. Selecting for marbling and improving quality grade was a surefire way to satisfy our consumer.

It worked. Today greater than 80% of our fed cattle grade Choice. More cattle qualify for the *Certified Angus Beef*® (CAB®) brand than grade Select. Given the trend line and the continued selection for marbling within the Angus breed, I expect more cattle will grade Prime than Select in the next five years. Beef demand has done an about-face, which can largely be traced back to the Angus breed and an intentional effort to make our product better.

A bigger pie to share

The result is a more valuable end product and, thus, more margin. Since 2000, there has been an average of more than $300 in profit per head spread across the production segments.

The packer has been in position to retain a big portion of that margin during the past few years (a hotly debated topic within the industry), but leverage is quickly moving back into the producer's favor. For cow-calf producers, the historic profits of 2014 and 2015 might well be revisited in the next few years, even in light of record-high input costs.

Our industry spends a lot of time debating margin distribution, and it is an important subject. Yet arguably more important than correctly dividing the pieces of the pie is the opportunity to grow the pie altogether. Staying diligent on reducing costs where possible is smart, but increasing the value of our end product is probably the most effective way to create more margin for producers moving forward.

Today a 900-pound (lb.) CAB or Prime carcass is easily worth $500-$750 more than a Select one of the same weight. That added value gives our industry some incredible margin with which to work.

We all understand more margin solves many of our issues. First, an industry must have margin to be sustainable. An industry with margin is attractive to companies looking to invest in new technologies and innovations. Maybe most importantly, an industry with margin looks a whole lot more appealing to the next generation of cattlemen and women.

In a climate of skyrocketing costs, it seems the key to long-term viability for the cow-calf producer must be increasing revenue. The last 20-plus years have proven focusing on the consumer and making our product better brings more dollars back into the production sector. Angus has led the charge for improving beef quality while building a brand to capture value for the producer, and we only plan to grow the pie and your margin opportunity in the future. ABB

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