

\$1.20 Fed Cattle & \$25 Tenderloins

Angus University speaker explains the gap.

by **LAURA CONAWAY**,
Certified Angus Beef LLC

Cattle prices go up, beef prices go up. Cattle prices go down, beef prices ... stay where they are? "What gives?" a producer may ask.

"Don't always assume that retail price is driven off of the price of goods," said Mark McCully. The vice president of production for the *Certified Angus Beef*® (CAB®) brand commented on the disconnect between ranch and retail, breaking it down during the Angus Convention in Fort Worth, Texas, last fall.

Encompassing the entire supply chain, the world's largest beef brand draws insight from all angles. McCully said one common question from the ranch is why retail beef prices differ so much from what producers get for their cattle. The answer is essential for cattlemen making decisions about genetics and what traits to emphasize.

"Producers will walk into a grocery store and see a price per pound that's significantly higher than the price they sold those fed cattle for to the packer," he said, "so it begs the question, 'why?'"

To answer, he began with a finished steer sold at \$1.21 per pound (lb.), before breaking down costs along the way that go into retail pricing.

A 1,400-lb. steer at that price costs the packer nearly \$1,700. From there, the 866-lb. chilled carcass is applied to the comprehensive cutout of \$2.08 per lb. Applying a drop credit for hide and offal of \$0.12 per lb., or \$161, provides a gross profit of \$265 per head.

"Year-to-date, it's good to be a packer," McCully said, but there are costs associated with marketing and sales, processing and packaging. There's an average of \$20 per head just in bag and box cost, he said. Assuming about \$200 per head in total processing costs, that moves gross profit to a net of only \$65 per head.

So what about that tenderloin sold in the grocery store for nearly \$25 per lb.? McCully broke it down further.

On a 900-lb. carcass, only 14 lb. make up two prized tenderloins. That's 1.6% of the carcass weight that commands 7.2% of its entire value, McCully said, making it the most expensive cut on the carcass.

Selling wholesale at \$9.70 per lb. and applying a 30% margin adds up to that subprimal cost of approximately \$175.28.

"Cattlemen have a bit of a struggle accepting margin," McCully said, "because that isn't how we get to work. We don't get to determine our cost, throw a 30% gross margin on and say 'this is what we're selling our calves for,' but when you get to the other side of this, that's how their business attempts to work."

They have a store to run and meat cutters to pay, he said. Not to mention, there's a chunk of business between the packer and retail store of which producers aren't always aware.

"We want to make sure we don't just skip over that because there's cost involved, complexities that are really important in terms of the logistics, the flow to get our high-quality product from the packer, ultimately to the consumer."

Holding that \$175.28 cost associated with the tenderloins, McCully subtracted \$44 in credit from trim and lesser-value items to end up with \$130.59. Dividing that number by the 5.3 average pounds of center cut filets brings a price per pound of \$24.64.

"Those are just some of the pricing mechanics that ultimately come into play in these costs producers see," McCully said.

From there, it's important to determine the quality of the product in question, he said. "Is it Select? Is it Prime, because there's added value when you get up to the higher quality grades."

With an average Choice-CAB spread of \$9.23 per hundredweight (cwt.), there's roughly \$83 of value attributed to a 900-lb. carcass that qualifies for CAB vs. Choice.

"As a farm kid, this has been a straight up and down learning curve," McCully said of nearly 17 years with the brand, "understanding how retailers think, how they price products, all the math and things they go through to price their meatcase."

Once you've determined the value of the product, then it helps to know that every retailer has a specific approach to pricing. Perhaps it's an every-day-low-price model, a high-low model or a premium experience.

Everything in the store is not priced with equal margins, McCully said. In fact, the

meatcase is often where those margins are the lowest, designed to differentiate the store from others, drive traffic and hope to make up for it when the customer purchases other goods.

"They all may be paying the same for their meat, but they're going to price it differently based on the cost to run their business," he said.

Editor's Note: Laura Conaway is a producer communications specialist for Certified Angus Beef LLC. This article is part of Angus Media's coverage of the 2017 Angus Convention available online at www.angus.org/Media/News/AngusConvention.aspx.



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What beef consumers crave

Grass-fed, hormone-free, all-natural and "non-GMO" labels scream at consumers from food packaging in the grocery store. That's a lot to digest. How does the average shopper know what to trust and what to buy?

Speaking at the 2017 Angus Convention in Fort Worth, Texas, Melissa Brewer said consumers see 5,000-10,000 marketing messages every day. With all that information to sort through, the *Certified Angus Beef*® (CAB®) brand's director of communications said it's no wonder people get confused.

What does really matter to consumers?

Products of value, peace of mind, convenience and flavor, said Brewer.

"Today's consumer wants to have confidence that their food is safe and wholesome," she said, "but the No. 1 thing that influences their buying decision is still how the product tastes."

While the trendy labels seem to appear everywhere, CAB product sales indicate consumers aren't quite ready to put their money where the label claims cost more unless it truly affects quality. The brand offers a CAB Natural extension, but it made up less than 2% of last year's record total of 1.12 billion pounds (lb.) sold.

Brewer compared consumers' preference for high-quality food to coffee choices. Given the choice between a 75¢ cup of coffee or a \$5 Starbucks drink, most opt for the higher-cost product. She explained that today's consumer chooses brands that deliver on functionality of products while meeting their emotional needs.

"Today's beef customers care about values," she said. "They want to know what the brand they are buying believes and cares about and make sure it matches their own beliefs."

Consuming beef in a digital world

Through digital media, consumers have access to vast information resources, but Brewer said consumers are "crowd sourcing" their data on where food comes from, how it's produced and what they should be buying.

The Power of Meat study found consumers are researching their meat purchases before the grocery store, she said, but family and friends have the most influence over buying preferences and beliefs. She pointed to weekly circular ads as being the highest economic driver outside of relational influence that drives consumers to the store to purchase beef.

As the world's reliance on digital media grows, the digital purchasing landscape adjusts. Many ranchers in the room questioned the influence of Amazon's recent purchase of Whole Foods, as well as the increasing popularity of purchasing groceries online or using meal-kit services.

"About 84% of consumers have not yet done grocery shopping online, and many feel uncomfortable using those services to buy fresh meat and produce," Brewer said. "CAB is closely tracking those consumer markets, and has not yet licensed any meal-kit providers as brand partners."

Looking to the future, she said the beef industry will need to balance transparency with the type of information consumers are searching for about their food. One thing is certain, she assured, quality beef and brands like CAB that share consumers' values will remain at the top.

— by **Nicole Lane Erceg**

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