

CAB CONNECTION

How and why the brand grows

by Clint Walenciak, Certified Angus Beef LLC



When the branded-beef company you own sets sales records every year for decades, anyone might start

taking that for granted. Growth is not guaranteed. Let's take a look at where the extra branded pounds come from and how to keep them adding dollars to your bottom line.

Really, it's best to break it down into the three primary components of growth. One, our licensed packing plants can process more cattle, those fed steers and heifers coming through the system. Second, we're seeing a higher percentage of those cattle receiving an "A" stamp, which simply means they came through the packing plant with a predominantly solid black hide coat. The third component is the quality performance of those cattle and their ability to meet the 10 carcass specifications for the brand.

We've been in a pretty unique frame lately. Sometimes we grow on the basis of just one of those elements; sometimes it is a combination of two. In each of the last four years, all three of those components increased, as the overall supply of fed cattle rebounded from its prior downward trend that had extended back into the last decade.

When we look at those three avenues by which we can grow, and chart them since 2015 (see Figs. 1 and 2), we can see four year-over-year comparisons and a tremendous

15% increase in total fed cattle harvested through the system over those years.

We've seen about a 6 percentage-point jump in the share of those cattle that are qualifying as Angus and Angus-cross during that time frame, to about 67% of the harvest today. Compound that with about an 8 percentage-point jump in the *Certified Angus Beef*® (CAB®) brand acceptance rate, which is the share of those black cattle meeting all the brand standards. We're at about 36% CAB acceptance as we look at things in late summer 2019 (see Fig. 3, see page 68).

These changes are the result of breeding and management decisions producers have made in response to market signals. As you rebuilt the herd, it's no coincidence, nor even a big surprise, that you were able to grow all three CAB components of growth in those years. However, cattle numbers are starting to level out to an annual harvest of just more than 26 million head.

This is the biggest supply of high-quality beef North America has ever seen.

Big supply implications

So we are sitting on the biggest supply of high-quality beef we have ever seen. We may see yet another year of at least some growth across all three components, but things are changing. Challenges are on the horizon.

Fig. 1: Fed-cattle statistics

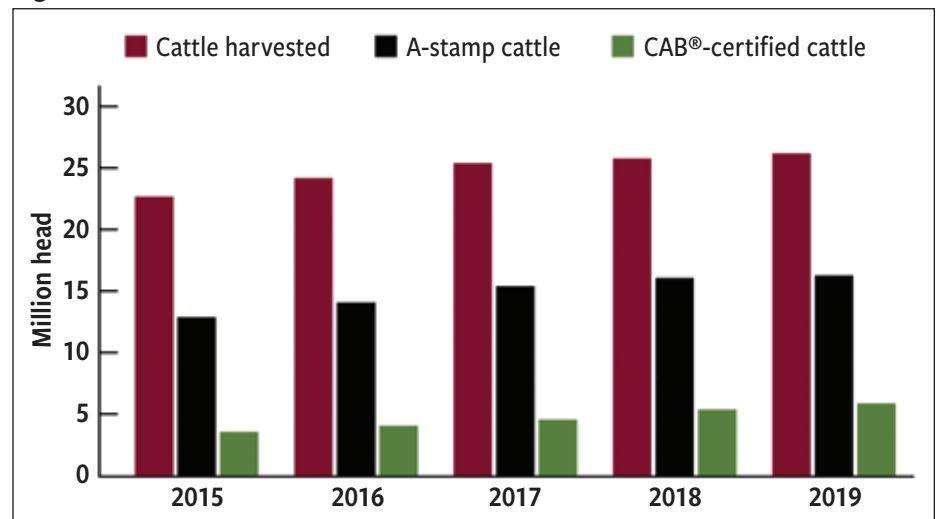
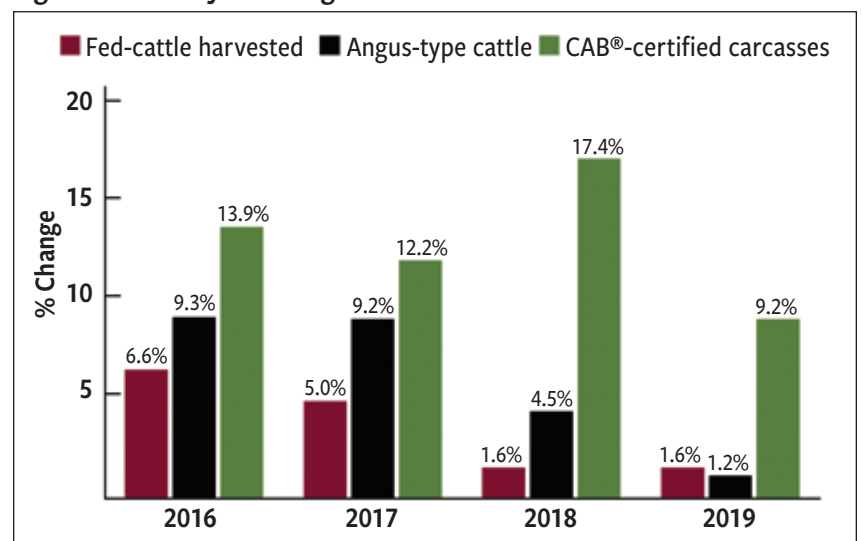


Fig. 2: Year-over-year change



In the final reckoning, the 2019 harvest count may get to 26.1 or 26.2 million head, up about 1.5% over last year, and that's what we might expect from a typical cattle cycle. Percent black is on a similar trend line, but could pull back to just a tie with last year. The CAB acceptance rate is where we still

maintain a little bit of momentum as we're realizing the payoff from increased use of higher-quality Angus genetics in recent generations of beef cattle.

Even so, that relatively steep upward trend can't be maintained. The influx of higher-quality genetics to rebuild after the drought forced severe culling early in the decade already may have exerted its primary effect.

We could see the rate of growth in CAB acceptance moderate from what was 2 to 3 percentage points to less than 2 points compared to 2018, and a bit less moving forward.

Continued on page 68

CERTIFIED ANGUS BEEF LLC

206 Riffel Rd., Wooster, OH 44691-8588; 330-345-2333; fax: 330-345-0808; website: www.cabcattle.com

John Stika, president
Brent Eichar, senior vice president
Tracey Erickson, vice president, marketing
Mark Polzer, vice president, business development
David MacVane, vice president, retail
Steve Ringle, vice president, business development

SUPPLY DEVELOPMENT DIVISION
Marilyn Conley, administrative assistant
Kara Lee, production brand manager, Leavenworth, Kan.
Paul Dykstra, beef cattle specialist, Chappell, Neb.

PRODUCER COMMUNICATIONS DIVISION
Miranda Reiman, director, Cozad, Neb.
Steve Suther, senior editor, Onaga, Kan.
Nicole Erceg, assistant director, communications
Abbie Burnett, communications
Morgan Marley, communications

Much depends on breeding decisions. Will Angus producers take stock of the analyses and now-proven experience that marbling is a free trait to add?

I'm talking about the lack of correlation between other traits of economic importance and the highly heritable marbling trait. It costs nothing in the sense that producers need not give up any other piece of the profit pie. In fact, maintaining the selection pressure to include marbling can pay dividends as you keep building the brand that leads the beef industry in paid producer premiums.

Consumers obviously like what you're doing, and that's been fun to watch (see Fig. 4). Brand sales during those last four years have surged by 40% overall.

When we dive down to look at just the CAB Prime brand extension, we might keep in mind those sales had doubled in the 10 years leading up to 2015. Since then, at these higher volume

levels, sales tripled in only four years, or we could say demand was up 200%.

Even when we look at commodity beef, more and more we're seeing retail accounts switch away from USDA Select to offer only Choice grade.

We've talked about three main components, but perhaps the most important component is our mind-set. This job isn't over.

As much advancement and increases as we've seen in quality beef production, especially since 2015, it's no less important to continue that momentum. That's because we'll no longer have the growth in total herd size and annual

fed-cattle harvests to grow supply enough to meet our documented growth in sales.

We're really going to have to rely on the use of those better Angus

genetics to get us more improved commercial Angus and Angus-cross cattle. Then, we need the quality focus in management across all sectors so that a growing share of future calf crops keep qualifying for the brand's carcass specifications.

That's how we keep up the win-win-win from ranch to consumer. |

Editor's note: Clint Walenciak is director of packing for CAB.

Fig. 3: % Black and CAB® acceptance rate trend

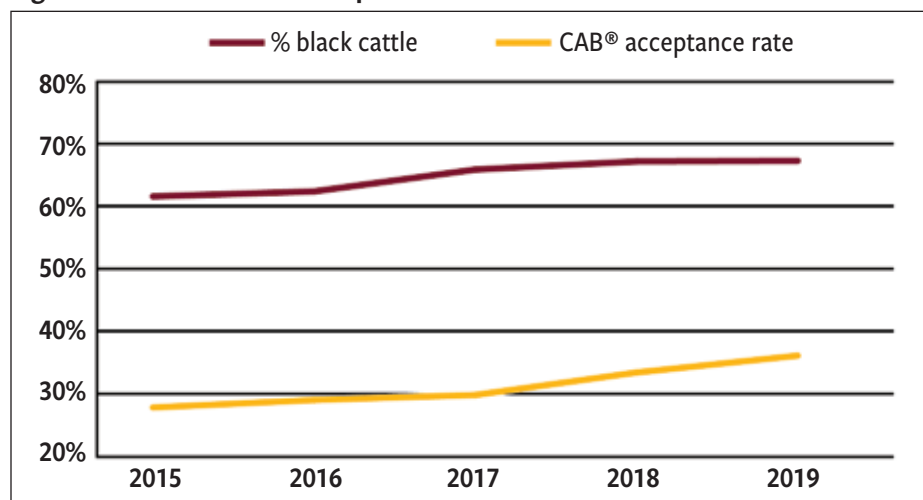


Fig. 4: Certified Angus Beef® Demand

	FY 2015	FY 2019*	Difference	% change
Overall CAB sales	901.5 M	1,260 M	372 M	40%
CAB Prime	12.5 M	37.5 M	25.0 M	200%

*Projections.