



[PHOTO COURTESY OF CERTIFIED ANGUS BEEF]

Relationships Key to Success

Relationships underpin greater efficiency, profits.

Commentary by Troy Marshall, American Angus Association

One of my favorite quotes is “You don’t close a sale; you open a relationship.” The power of relationships has always been important in the cattle industry. At a time when a lot of business is transacted without any human interaction at all, the power of relationships seems to be growing exponentially. I believe the value of relationships will continue to grow and gain momentum in our industry for several reasons.

First, supply chains within the industry are growing at an incredible pace. These supply chains are changing the way we look at marketing cattle, and they are altering how all segments look at procurement and marketing of our product. They create additional value for the consumer, improve overall efficiency, and allow for a much more dynamic feedback loop that accelerates both quality and responsiveness.

Perhaps most importantly, supply chains do a better job of equitably

spreading out the way value is allocated, which greatly reduces or mitigates the risk inherent with our markets.

The last 24 months have seen an incredible growth in the number of supply chains being created. That trend is expected to continue, as most of the new packing capacity coming online, and the new entities being built, are dependent upon more than just the open market. The number of cattle moving through dedicated supply chains could be as high as 25%-30% in a matter of a few years.

The incorporation of sustainability metrics is happening at an unheralded pace at the feeding, packing, HRI (hotel, restaurant and institution), and retail levels. That will hasten the development of supply chains, as well.

Information exchange

Supply chains allow for the exchange of information and data. That is why they are fundamentally built on relationships, which are built

upon trust and integrity.

We often talk about the disconnect that exists between the cow-calf producer and the feedlot. It’s one that doesn’t exist at other levels of our industry. Cow-calf producers demand information on the genetics they purchase, and they use expected progeny differences (EPDs) and performance information as a means of truly communicating that information between the buyer and seller.

Producers don’t solely base their decision upon EPDs. They also rely on the relationships they develop with their seedstock suppliers and the additional services those seedstock suppliers offer to add value and to help their customers capture value from the genetics they buy.

As a result, we see tremendous variation in the prices received for bulls. Overall averages move up and down depending on supply and demand dynamics. But, the price variation around those averages

continues to widen, in part because the value of genetics continues to increase.

Communication and market signals sent between the feeding and packing segments have been growing for quite some time. Around 60%-80% of all fed cattle sold sell on some type of formula or grid basis by which feeders are paid based on quality grade and yield. Cattle that meet certain market segments or qualify for various brands by meeting certain specifications have access to additional premiums.

The *Certified Angus Beef*[®] (CAB[®]) brand is the largest beef brand in the world, and nearly every grid offered gives producers the ability to earn premiums for the cattle that meet its specifications. The near ubiquitous presence of CAB in the marketplace has helped to drive the demand and premiums for black-hided cattle.

In the consumer's mind, Angus is synonymous with quality. The only two factors that have had a bigger influence on the demand for Angus

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have been the advantage of Angus genetics, and the fact these advantages have been driven by some of the most progressive and customer-oriented seedstock providers (see "The value of genetics," page 16).

Connectors

The supply chains we are seeing develop today seem to be built upon a few key components:

1. Traceability and the exchange of information. Traceability is a concept that has been around for a long time, but was logistically challenging in a commodity marketplace. Supply chains provide that. The exchange of information between segments has

long been recognized as the holy grail, so to speak, of cattle marketing, where both pricing signals and information flow would give producers the ability to make better decisions, create more value and increase margins in the process. Again, supply chains have emerged as the way to address this problem.

2. Reducing costs and increasing production efficiency. The silo mentality of our industry prevented feedback that would allow one segment to learn how their management decisions affected the profitability of those in other segments. The value of being able to take a total systems approach to efficiency rather than a segment view is immense. Typically, commodity systems respond to this through concentration, consolidation and vertical integration. Supply chains are an effective means of providing these advantages without those negative side effects.

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Tools to add confidence

The AngusLinkSM program is built upon the concept of helping producers participate in and enjoy the benefits of supply chains while keeping their options open.

Enrolling in AngusVerifiedSM helps producers validate that their calves are out of registered Angus sires and helps to differentiate their calves in the sea of black-hided cattle. It also potentially makes it easier for those calves to be targeted toward the more than 50 branded Angus programs available today.

The Genetic Merit Scorecard[®] (GMS) is revolutionizing the way feeder cattle are marketed. The marketplace is pretty good at communicating the differences in health, management and the like. But the No. 1 driver of value and the single greatest differentiator in the marketplace — genetic merit — was historically impossible to communicate effectively. There wasn't an objective, reliable or cost-effective way to describe the genetic merit in a pen of feeder cattle in a way that was actionable or usable by a buyer.

The GMS simply allows a buyer to buy with confidence. It is the tool that was necessary to allow cow-calf producers to participate in value-based marketing. It

eliminates the downside of a commodity system, in which the "better" cattle subsidize the "poorer" cattle and a lack of information pushes all prices toward the average.

For the first time ever, we can have genetic merit widely distributed to all buyers, allowing them to make more-informed buying decisions based on objective data. It helps producers capture premiums, benchmark their progress relative to the industry, and provides an opportunity to build relationships and gather feedback from those people investing in your genetics.

A marketing mentor told me you can evaluate any marketing plan by how effective it is at building relationships that have the opportunity to last and benefit both parties over time. The AngusLink program is designed to help build relationships between buyer and seller. The members of the American Angus Association created this program because they understand the passion, commitment and dedication it takes to be in this business. Their deepest held belief is that their success is ultimately measured by your success. It truly is a relationship built on building better relationships.

3. Increasing value either by hitting specific targets for specific markets, or through being more responsive to consumer demands.

The marketplace has sent very clear signals that today’s consumer demands quality. This is evidenced by the fact that while we have decreased the number of cattle grading Select by more than one-third, the Choice-Select spread continues to grow. We have seen a more than twofold increase in the number of cattle qualifying for CAB, and yet that premium has been steady to firm. We have tripled the number of cattle grading Prime, while premiums for Prime set new records.

4. In addition to quality, we saw significant niche markets grow for non-hormone treated cattle (NHTC) and all-natural cattle. Sustainability is the new driving force in this area

and potentially could have the effect of CAB — where it is not considered a niche, but rather a permanent new category in the marketplace.

Why not sooner?

Supply chains are the biggest trend in our industry right now because they are an effective way of driving all four of these attributes. However, it does beg the questions: Why didn’t supply chains happen earlier? What are the risks associated with them?

The first question is relatively easy to answer. Tradition and our commodity marketing system worked against supply chains. The segmented nature of our business led to a lack of trust between the segments. There simply wasn’t the level of trust between the various players to enable the level of commitment required to reap the benefits.

A supply chain begins with genetics and ends with the consumer. There were a lot of moving parts and sometimes conflicting objectives. Improvements in technology, increasing demands from consumers, increasing consumer options and a highly competitive protein market have all combined to create an opportunity. The success enjoyed by examples from U.S. Premium Beef (USPB) to Prime Pursuits has given producers the confidence to participate in supply chains.

What are the risks?

What are the potential downsides? That is worthy of discussion, and a little harder to answer.

Building a relationship always involves risk. Whether business or personal, the deeper the relationship, the bigger the commitment, the bigger

The value of genetics

The value of genetics has never been greater, and it is the most efficient way to mitigate risk in our marketplace today. We intuitively understand the value of genetics, especially through weaning. However, it is sometimes good to be reminded how much financial effect we are talking about.

At the time of writing this article, the quality grade spreads were all greater than what I’m using for my examples, but these examples are illustrative.

Assuming you had four animals with the exact same carcass weight of 900 pounds (lb.), a Select-grading product would be worth \$126 less than a Choice carcass. A CAB carcass would be worth \$126 more per head than the Choice carcass and a Prime carcass would be worth another \$297 per head, or \$423 more than the Choice carcass.

At a \$275-per-hundredweight (cwt.) dressed price, a steer with just 20 lb. more carcass weight would be worth an additional \$55 per head.

Assume two steers both gained 850 lb. in the feedyard with a cost of gain (COG) of \$1.30 per lb. A 10% improvement in COG would be worth \$110.50 per head.

To further illustrate, let’s assume you feed two pens of 100 steers each with an average carcass weight of 926 lb. The only difference in those two pens is that one pen went 20% CAB and the other 80%, and you were selling them on a grid with a \$5-per-cwt. CAB premium. The difference is nearly \$30 per head for every single calf in the pen.

Angus advantage

Table 1 shows data from the USDA Meat Animal Research Center (USMARC) Germplasm Evaluation Program. It shows that Angus has significant advantages in growth, carcass weight and marbling — the three biggest contributors to profitability beyond the ranch gate.

Table 2 shows the average EPDs for breeds converted to an Angus base. This is the best way to compare the various breeds’ genetic merit on average. As you can see, Angus is not just a calving-ease, maternal breed. Now it is the highest-growth, highest-marbling and highest-carcass-weight breed by a considerable margin. Most impressive to me is that those relative advantages have increased over time. Angus has become the dominant breed of choice for

Table 1: Breed differences

Breed	Yearling wt., lb.	Carcass wt., lb.	Marbling score
Angus	1,051	936	Sm ⁹⁹
Simmental	1,035	919	Sm ³⁰
Charolais	1,025	923	Sm ¹⁶
Red Angus	1,012	909	Sm ⁶⁸
Limousin	1,011	917	Sm ⁰⁷
Hereford	990	891	Sm ¹³

SOURCE: USMARC Germplasm Evaluation Program, 2019-born animals.

the opportunity for growth and the greater the risk if the relationship were to dissolve.

Whether picking a spouse, a seedstock supplier or a business partner, the key is not so much about the value of the partnership as it is about picking the right partner. Does that partner share similar values, similar vision, similar goals? Do they have a similar purpose?

The key word is *similar*, because no partner will hold your exact version of these parameters, and that means that there will have to be compromise and a way of creating consensus. The ability of any team to grow and prosper is built upon the foundations of trust, integrity and commitment to the relationship. Trust is intimately connected to vulnerability, and being vulnerable is not something most cattlemen do willingly.

Of course, you don't want to make a full-fledged commitment without doing your due diligence. Some supply chains will not work out, and others will fail to live up to their potential.

Choosing a partner

In the casual dating stage, it pays to keep your options open. As the relationship becomes more serious, your level of commitment grows. If you are lucky, you may eventually make it exclusive because you know that is the best path for both of you.

When determining with what supply chain you want to align, there are several factors to consider:

1. How strong is their brand, and what is the momentum of that brand?
2. What is their value proposition?
3. Are they rewarding genetic differences for production efficiency and product quality?

4. Do they provide clear targets, and have defined ways of creating and distributing premiums?

5. How is value created and defined?

6. Does their system guarantee market access?

7. Does their system provide for continuous improvement, and is it positioned to respond to the changing demands of the marketplace?

8. Are they represented by the kind of people with whom you want to work and associate?

Building relationships within beef industry supply chains opens the door to opportunity for greater efficiencies and greater profits, and we now have tools to enter those supply chains with confidence. **ABB**

Editor's note: Troy Marshall is director of commercial industry relations for the American Angus Association.

the cattle industry and for supply chains because of its advantage in the economically relevant traits of beef production.

Forty years ago, even 20 and 10 years ago, these differences would not have been as wide. I'm often asked, with so many breeds utilizing Angus genetics to help improve their rate of genetic progress, why does this gap continue to widen? That is a good question. I think there are a lot of reasons.

Angus breeders' adoption of EPDs was earlier and more widespread in the beginning. They adopted technology quicker, enjoying the highest rates of artificial insemination (AI), embryo transfer (ET) and genomic testing within the industry by a considerable margin.

Economies of scale matter in business, and they matter in genetic improvement, as well. Angus enjoys the largest database, the largest number of cattle from which to select, and has the compounding advantage of more data. Our size has given us not only the largest genetic pool, but also the deepest pool of seedstock breeders, as well. Genetic progress typically comes down to these key factors: the size of the population to select from, the amount of selection pressure that is applied, and generation interval. Angus has a distinct advantage in these areas, advantages that continue to widen and compound over time.

Table 2: Avg. EPDs for breeds (2020 birth year) converted to an Angus base

Breed	BW	YW	CW	Marb
Angus	1.2	108	48	0.65
Hereford	3.8	44	-4.1	-0.23
Charolais	6.1	79.6	25.3	-0.21
Red Angus	0.5	66.9	12.7	0.33
Simmental	3.6	88.5	24.7	-0.04
Gelbvieh	3.0	85.0	17.2	-0.25

SOURCE: American Angus Association based on USMARC data, 2022.

BW = birth weight EPD; YW = yearling weight EPD; CW = carcass weight EPD; Marb = Marbling score EPD.

Of course, rate of change and genetic progress are not the same thing, and that is where having the right selection tools and indexes — and having breeders who exercise the art as well as the science of animal breeding — comes into play.

The growth of CAB, and the shift in the marketplace toward quality have also had a big effect. The market recognizes these differences and rewards them with increased market share, higher average prices and larger premiums. Supply chains are designed to capture these value differences, and as a result, tend to be sending even clearer pricing signals in the marketplace. As one supply manager told me, the data speak loud and clear and drown out any voices that exist based on breed loyalty or biases.