



Your Link to

by **BRENT EICHER**, CAB senior vice president



2020 foresight

Last fall, the downturn in the stock market caused some people to worry, especially if they had a retirement account such as a 401(k). For a cattleman, that combination of three numerals and a letter could represent one of your cows born at the turn of the century. You may also have a 402K and a 403K, just past their prime but mothers of a few generations of replacements. Can your herd continue to grow?

No matter whether you use your herd or Wall Street investments to build equity, the unsettled economy in the recent past made you take stock of decisions over the years and look closely at the future.

If we look to history, we can see that

over time, a free-market economy like we are blessed with in the United States will rebound and grow once again. Just as in the cattle business, there will be cyclical up and downs in the short and intermediate terms. However, it's the long term that really matters. The Dow Jones index has posted more than a 460% increase since its base low in the early 1970s.

Look back at your herd history, selection and growth strategies — are you on track? Do your cattle add value to your farm, the feedlot, the packer, retailer and restaurateur? Do they add value to the consumer and therefore to the U.S. economy? To the extent that you

Table 1: Estimated number of CAB®-qualifying cattle necessary to meet estimated demand and the estimated potential revenue that could be generated

Year	Pounds	Dollars	CAB Cattle
2010	661 million	\$14.9 million	2.28 million
2015	823 million	\$18.6 million	2.8 million
2020	1.03 billion	\$23.1 million	3.5 million

can answer positively, your investment is secure for the long term.

Long-term planning is no different in other avenues of business. We must continually ask, will there be a demand for my product? What will my expenses be over time to operate the company? In the case of Certified Angus Beef LLC (CAB), will there be a sufficient supply of cattle to meet demand and the financial needs of the company long term?

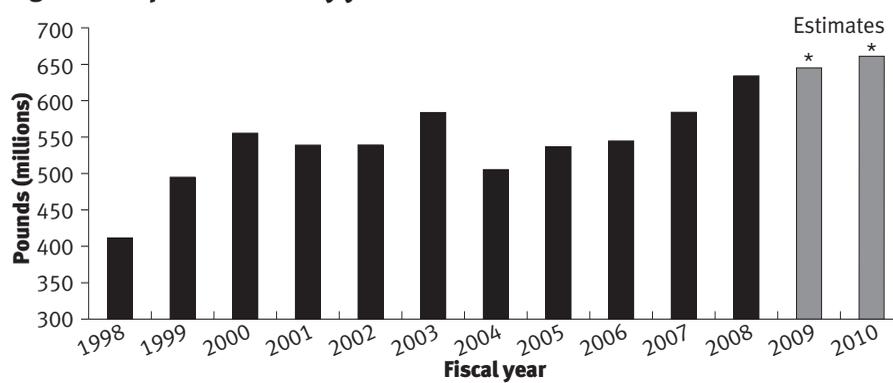
I have had the good fortune to work at CAB these past 22 years. In the early years, the most frequent question producers asked was, "Will I ever be paid to produce quality cattle that meet the *Certified Angus Beef*® (CAB®) standards?" Now we know the answer. Given the strong demand for the brand today, licensed packers have sent more than \$250 million back to producers whose cattle have hit the target over the past decade.

As we look to the future, new questions arise: "How many cattle will it take in the future to meet the growing demand for CAB products?" Where will they come from? During the past 30 years, the brand has sold more than 7.5 billion pounds (lb.) of product, reaching a record 634 million lb. last year (more than 300,000 lb. per working hour).

To find answers, I developed a financial model for the company through the year 2020. It's known around the office as the "2020 Plan." As I began to trend the routine expenses of running the company, expecting no more than modest inflation, the model began to come to the same conclusion each time. We need to attain sales of 1 billion lb. per year by 2020 to maintain the quality-beef leadership position that CAB holds in the industry today.

What does this mean to you as a producer of cattle? Based on current

Fig. 1: CAB® products sold by year



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processing methods, we have 300 lb. of boneless cuts of CAB product available for sale from each animal. If we keep building the demand so that most of the available cuts are sold under the brand, it will take at least 3.3 million cattle per year meeting the brand's standards to fulfill the demand.

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 being processed in this
 country are Angus-influenced,
 nearly double the ratio
 in the early 1990s.**

That's nearly 1 million head more than we had last year. If carcass utilization tracks at 270 lb. instead of 300 lb., it would take 3.5 million head (see Table 1). This is both an opportunity and a challenge for those who breed and feed cattle.

We can reach this number in two main ways: Increase the influence of Angus within the nation's beef herd, and use ever-higher-quality Angus genetics to improve our herds. Much progress has already been made in this regard. Today, 60% of all beef cattle being processed in this country are Angus-influenced, nearly double the ratio in the early 1990s.

In fact, if you look back 12 years, you can see that we have been able to identify nearly 1 million more cattle per year today compared to then. However, the North American cow herd inventory is in decline, and that will pose more of a challenge between now and 2020.

When it comes to Angus genetics, we are seeing numerous sets of cattle reaching 50% or more CAB acceptance. There was a time when a 30% acceptance rate was thought to be out of reach. Yet, many groups capable of achieving 50% realize less than half of their potential due to gaps in management and health coordination.

As you consider the future of your operation, and check on your 401(k) — investment or cow — I respectfully ask that you continue to include a CAB focus in your business decisions. It should be a long-term profitable decision for you, as it adds value to your herd on the farm. Moreover, it makes you part of the greater effort to add value to all Angus cattle. And it helps meet the global supply needs for your CAB brand through the year 2020 and beyond.