



Your Link to

by **LARRY CORAH**, *Certified Angus Beef LLC*



Down 5 million cows; what now?

The USDA *Cattle Inventory Report* released in February contains news most of us never thought we'd hear. There are fewer than 30 million beef cows left in the United States — 29.3 million, to be exact. That's bad news for all the feedlots trying to fill pens, for the packers trying to fill hooks on the rails, for the companies that sell products to the beef industry

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and for seedstock producers selling
bulls.

Yes, our industry has changed, and we are adapting. We will repopulate, but it's not likely we will get back to the 34-35 million cows we used to think of as normal for our country.

Derrell Peel, Oklahoma State University (OSU) economist, recently laid out the logic: From 2007-2012 there was a 2.76-million-head (8.5%) decline in U.S. cow numbers. In the Midwest the decline was 14.2% as land shifted from cattle to cropland in Iowa, Minnesota, Illinois, Indiana and Missouri, as well as Kentucky and Tennessee. Most of that land will never come back to pasture.

Where does that leave the *Certified Angus Beef*® (CAB®) brand? Consumers keep telling us they love it, they want more of it, but we are hemmed in by numbers just like all the rest of the industry. Yet, we can't crawl under a rock and hide for four or five years until cattle numbers build back. Nor can we ignore the crunch.

The best course is going to take a lot of creativity (but the brand was built on that). To keep driving our goal of adding value to these great Angus genetics from focused cow-calf producers, we must look for ways to add high-quality pounds — ways that don't depend on cattle inventory alone.

Are there opportunities? Sure there are. Here are five examples.

Carcass utilization

During previous years of short supplies, we were at 290 pounds (lb.) of carcass utilization (the amount of boneless CAB product sold from each identified carcass). As cattle started grading better (see Fig. 1), utilization dropped to 230 lb. This past year utilization was back to 250 lb. The opportunity clearly exists to grow that by another 40 lb. per head. That would mean 120 million lb. more available for sale. That's like finding nearly half a million more cattle.

Accomplishing that goal would help all segments of our industry. Packers would get more dollars from each carcass, allowing them the opportunity to pay more for the cattle. Everybody would win, and the market would stimulate rebuilding in the cow herd along higher-quality lines.

So how does all this happen? First, we identify those packers that have the greatest opportunity in carcass utilization and work closely with them to identify foodservice and retailers that need more product.

To make this happen, we've had to adapt, too. We changed our company's focus so that account managers work closely with our packing division staff

to find who needs product and where they can get it. Twenty years ago, this was a tactic that was unheard of, but it is simple and effective today.

We've changed our marketing focus as well, capitalizing on the rapid rise of premium grinds in beef sales. Some would argue "a grind is a grind." Not so. Premium grinds outsell Choice and Select grinds by 20¢ per lb. because of consumer preference. That means selling 95 lb. of grinds per CAB carcass means \$19 added value over Choice or Select.

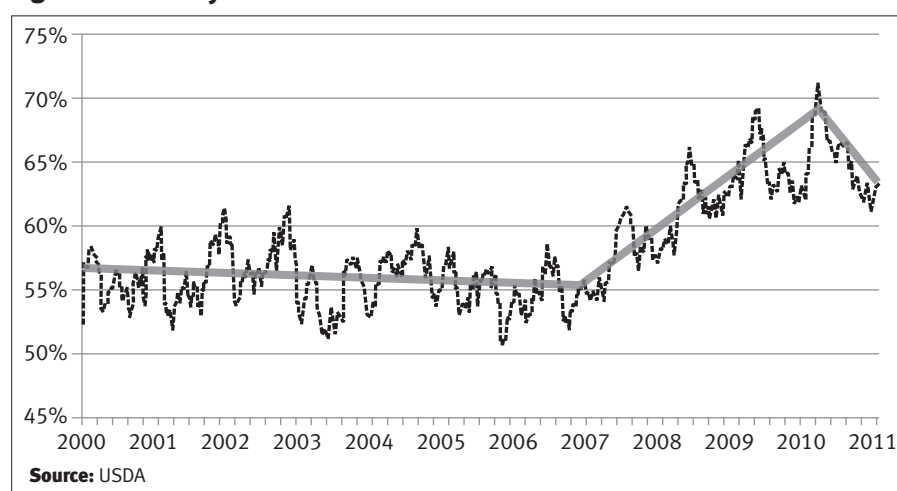
Being proactive and working with the beef industry's Joint Product Enhancement Committee, we look for ways to help restaurants and retailers sell new cuts at higher prices. Phrases

Table 1: Changes in 30 years

	1983	2013
Hot carcass weight, lb.	610	880
Age at harvest, months	30	18
Feed costs, \$ per ton	\$65	\$300
Cattle sold on formula or grid, %	5%	65%
Beef produced per cow, lb.	580	873

Source: Robbi Pritchard presentation, 2012 Northern States Beef Conference.

Fig. 1: U.S. weekly % Choice and Prime



Source: USDA

Fig. 2: Banner promoting Certified Angus Beef LLC's Smackdown Madness competition



like flat-iron and *teres major* steaks were unknown to beef buyers 10 years ago. Today they are industry buzz words creating new ideas for our licensees and adding dollars to the value of cuts once considered “pot roast.”

As good as those new cuts are, we must refocus on selling the traditional middle-meat steaks, and we are. The market for those cuts has been as soggy as underwater mortgages since 2008 nationwide, but CAB has outperformed the rest. We beef up the number of partners in foodservice distribution and energized them with contests like “Smackdown Madness” (see Fig. 2), bringing attention back to that great steak-eating experience.

Helping retail partners do more featuring in their ad flyers is critically important to beef sales. That’s why our account managers monitor and constantly encourage them to feature CAB product. The numbers can add up. In February, one licensed retailer had CAB strip steaks featured at \$5.96 per lb., the same as pork chops and only 60¢ more than boneless chicken breasts. I know which one I am putting on my grill.

Carcass weight

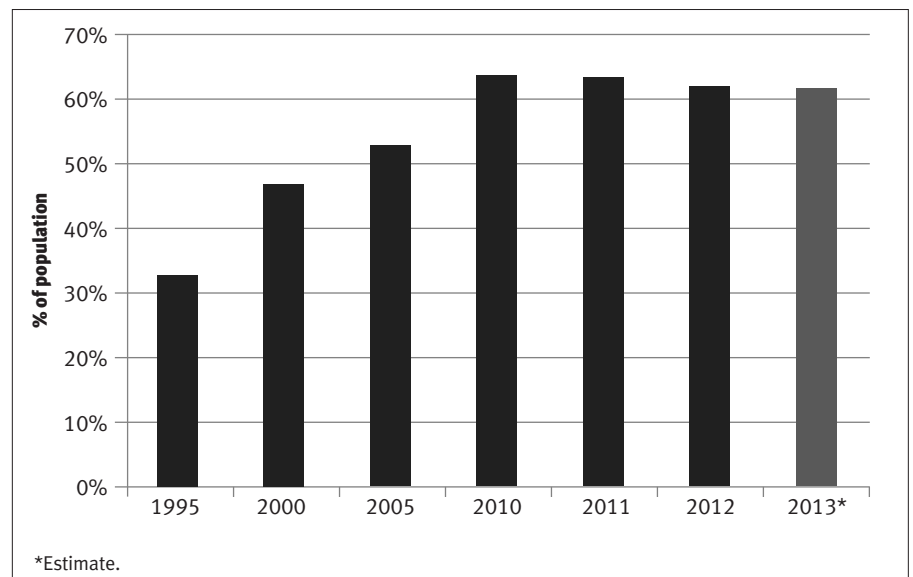
Noted feedlot nutritionist Robbi Pritchard, speaking at the Northern States Beef Conference in January, shed light on how we have changed cattle during the last 30 years (see Table 1). Through genetic selection, cattle today can reach carcass weights exceeding 1,000 lb. without carrying excess fat cover.

Our brand is affected by this evolving trend in both positive and negative ways. The positive is heavier carcasses create more product to sell. In 2012, CAB carcasses were 20 lb. heavier than the previous year, surpassing the national average. That meant 60 million lb. of branded product available to sell.

The flip side is heavier carcasses pose major problems for both foodservice and retail. Imagine cutting 10-ounce (oz.) strip steaks from a primal with a 16-inch (in.) ribeye, and the next one out of the box has you trying the same thing from a primal rib with a 10-in. ribeye. Do you think the steak thickness would vary and affect cooking time and appearance?

Obviously it does — and it can vary a lot even among primals of the same weight. That’s why, given the persistent

Fig. 5: Percentage of black cattle of total population



uptrend in carcass weights (see Fig. 3), we keep looking for creative solutions that fit our longtime goal of limiting the magnitude of variability in the box.

CAB acceptance rates

If this brand is going to continue driving demand for high-quality Angus genetics, we’re going to need the cattle that prove those genetics are out there growing, gaining and grading. CAB acceptance will dictate our success right along with carcass utilization over the next four to five years as we deal with reduced cow herd size.

Two years ago, the CAB acceptance

rate was 23.2%, and that slipped a full percentage point to 22.2% last year. A one-point change may seem irrelevant at first, but think of the size of this program, and you’ll realize it’s huge: one-point shift = 33 million lb.

Fig. 1 illustrated how cattle in general have graded better, a boost in the top end of quality that has been the key to our brand’s 40% growth since 2005. We attribute most of this shift to genetics and the great job Angus breeders have done of focusing on genetic selection for marbling (see Fig. 4).

(Continued on page 64)

Fig. 3: CAB® certified carcasses and HCW trend

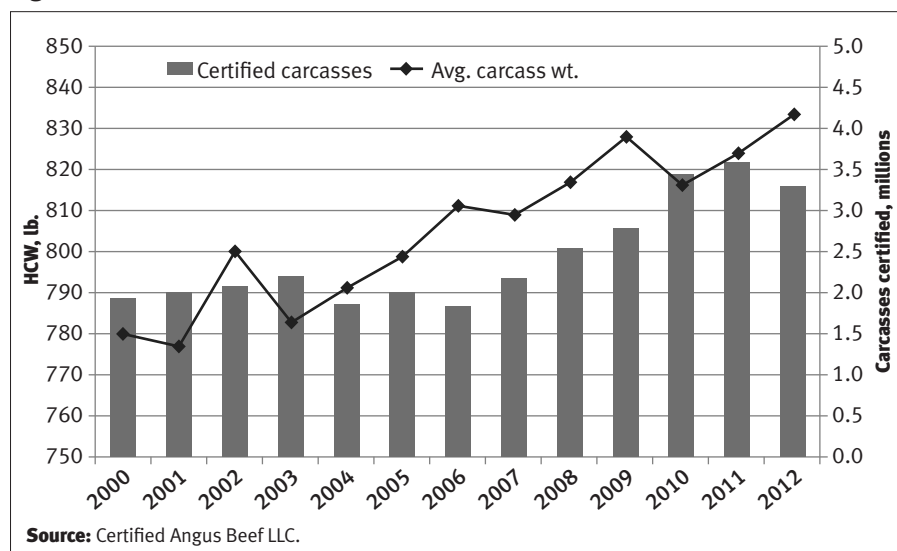
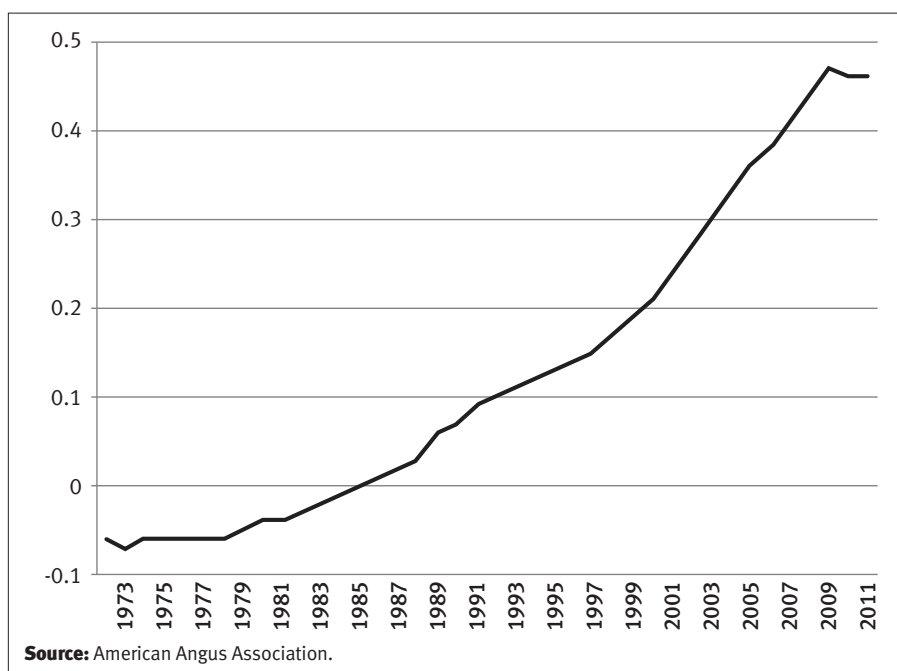


Fig. 4: Genetic trend slide for marbling



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But what has been going on over the past two years? CAB acceptance rate is not the only trend line to come off its peak, and there could even be a connection. Certainly there's a concern.

It is absolutely critical to CAB's future and ability to serve Angus breeders and commercial cow-calf producers that

these producers maintain the long-term selection pressure, utilizing bulls with marbling EPDs significantly above the 0.42 breed average.

You may recall one of the goals established by the American Angus Association staff and board in 2000 was a 30% CAB acceptance rate. In the late

1990s that seemed impossible. Today we see many carcass closeouts exceeding 40% and some reaching 80%-90% CAB. Contests have seen 100% CAB entries decided by the share of CAB Primes.

Marketed on a grid, these cattle often generate \$100-\$200 in premiums for the producer, and sometimes that comes along when commodity cattle close out at a loss. Quality pays. Could our industry

achieve this once seemingly ridiculous goal of 30%? Absolutely, with the right genetics and management.

That confidence is why the Supply Development Team at CAB constantly monitors research that affects marbling. It's why our Industry Information Team generates dozens of articles annually focusing on this precise topic.

It is also why we have taken positions on how the industry uses growth technology products like implants and beta-agonists, because these products, used aggressively, lower marbling levels.

It is also why, in 2012, we collaborated with Angus Genetics Inc. (AGI) to launch the DNA technology called GeneMax™. We believe extensive use of this technology by the cow-calf sector could dramatically grow supply during the next 20 years. DNA truly is the genetic selection tool of the future.

Percent Angus-type in the mix

One of the most consistent trends during the past 30 years has been the increase in percent black-hided cattle in the industry (see Fig. 5, page 63).

Today, 62% of all fed cattle are black-hided, and when you take the Holstein-, Mexican- and Canadian-origin cattle out of that mix, it becomes 75%-77% of the fed-cattle population.

Can we keep this growing? We think so, but the number is reaching a level where growth will be slower.

Keep in mind, each percentage-point change in the share of Angus-type cattle increases available supply by 9-10 million lb.

Canadian production

In the early 1980s, our brand first appeared in a Canadian restaurant. Today, Canada is our No. 1 international market. Last year, more than 37 million lb. of product were sold in Canadian restaurants and grocery stores.

In 1999, we started producing this brand in Canada. Yet today only a little more than 2% of all CAB product originates there, while nearly 5% of our supply is consumed by Canadians. Those folks are just like U.S. citizens in their pride of country and desire for locally produced food.

This had led us to put more focus on Canada with the goal of increasing the level of Canadian-sourced production to 20-25 million lb., which could be achieved in four to five years, and 30-40 million lb. is not unthinkable.

In Canada today, barely more than 30% of fed cattle are black-hided. Because of a lesser focus on marbling, the percentage of CAB acceptance lags that of the United States. All of this, however, creates opportunity for growth.

Yes, the U.S. cow population has dwindled, creating challenges, but we hope sharing our focus leaves you feeling the future of the brand is still a shiny one that will turn the challenges into opportunity for you.