

CAB Momentum Pays

Nearly 30% of total \$450 million paid since 2011.

by **STEVE SUTHER**,
Certified Angus Beef LLC

Market premiums paid for cattle that earn the *Certified Angus Beef*® (CAB®) brand trademark more than doubled recent annual totals to reach the neighborhood of \$50 million.

The brand's 10 years of increasing consumer demand and seven years of product sales records left some Angus producers wondering how that affects their bottom line. Results from the biennial survey of CAB-licensed packers in January shines a halogen beam on the answer.

There were plenty of hints. Two years ago, this report noted a seven-year high of \$32.3 million in grid premiums, but cautioned that a 45% single-year increase did not constitute a trend. Yet that story ended with the observation that USDA reports, never known to overstate grid premiums, showed 2012 starting with a CAB premium of \$8 per hundredweight (cwt.).

Apparently, that mark was often revisited in 2012 to bring about the 60% single-year further increase to a record \$51.6 million paid. The previous record of almost \$40 million was 10 years earlier in a turbulent world market affected by bovine spongiform encephalopathy (BSE) and trade barriers (see Fig. 1).

The \$47 million in CAB grid premiums paid in 2013 was more than double the \$22.9 million paid in 2010.

All of the data comes from CAB's "Here's the Premium" project that has surveyed packers to gather total

dollar-grid premiums paid since 1998. They report totals for use in the aggregate with no individual company numbers published. Although Certified Angus Beef LLC (CAB) tracks volume sold by packer, it does not know the share of cattle each buys on a grid that pays CAB premiums.

The top four CAB packers produced more for the brand in each of the past two years and paid record amounts to producers in either 2012 or 2013.

Even as cattle numbers have declined, more and more sell on value-based grids that pay direct CAB premiums. The share of live cash trade to grid, contract or formula

pricing moved from a balance in 2005 to 67% grids by 2011, and last year CattleFax reported that number at 76.9%.

Boxed-beef prices were a concern for commodity producers early in the last decade, as the trend line for USDA Choice beef

met resistance at \$150 per cwt. Some saw that as a sign to forget trying to please consumers and focus on cost-cutting. Others focused on making beef worth a higher price. CAB cutout climbed higher across five years, from less than \$147 per cwt. in 2009 to more than \$203 per cwt. last year.

Packers say their cash bids reflect estimates of potential for CAB- and USDA Prime-grading cattle, too. Regardless of how the cattle are sold, premium quality pays.

"Demand for branded and premium products from the consumer has increased as the

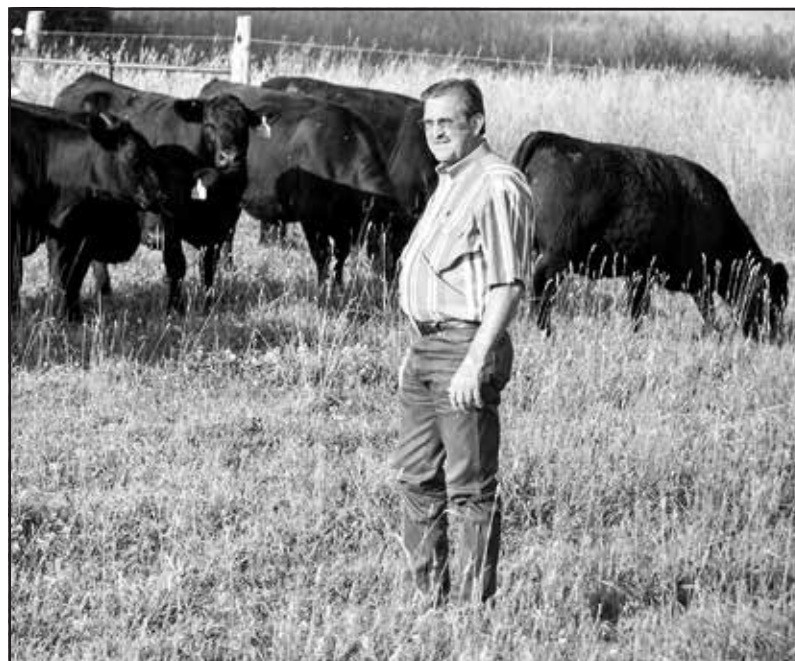


PHOTO BY SHAUNA ROSE HERMEL

"In the earlier days of CAB we often heard 'Where's the premium?' I haven't heard that in quite a while," observes Ben Eggers, manager of Sydenstricker Genetics, Mexico, Mo. "The value of superior carcass merit is well-documented now, and many top commercial cattlemen have reaped the benefits."

economy has improved, and foodservice is probably the biggest winner," says Alan Smith, director of protein research and risk management for CattleFax.

"Given higher prices, consumers want more assurances of a good eating experience and are willing to pay for it when they choose to consume beef," he explains. "Everyone who handles or supplies the premium product sees revenue or margin gains."

University of Missouri ag economist Scott Brown agrees rising beef prices made consumers keenly aware of value and, he says, decades of marketing efforts paid off for Angus producers.

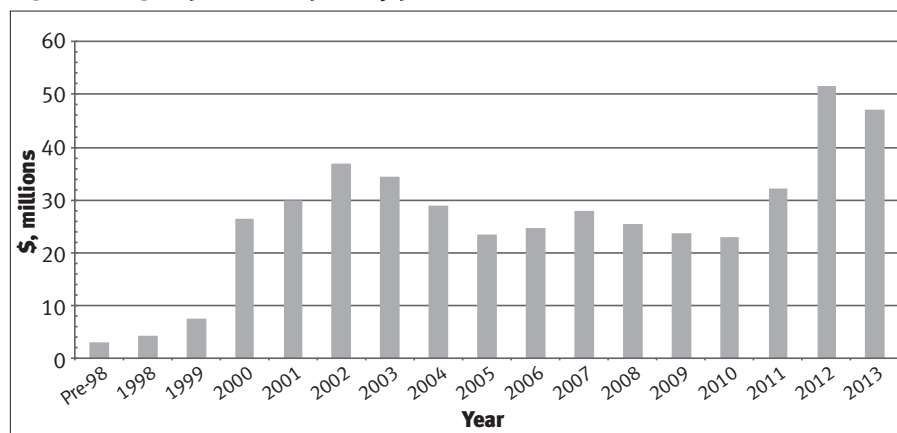
"The work invested in brand building over the years has resulted in CAB's position as a brand consumers

trust for a consistent and great eating experience," he says. As overall supply and demand push all beef prices still higher, Brown says, "the market advantage for CAB and that momentum will only accelerate over the next several years."

Looking at CAB grid premiums paid over time, it took nearly 30 years to garner half of the \$450.8 million paid for the share of 40 million CAB-accepted cattle sold on grids, while nearly 30% of that total was paid in the last three years.

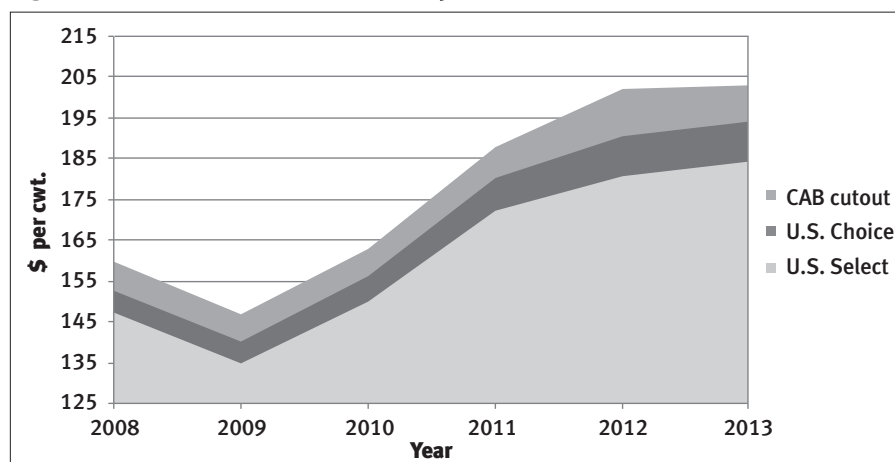
Brown says it's important for Angus producers to keep their focus on genetics that meet this expanding demand. Balancing supply and demand has been a CAB hallmark for 35 years, but at the scale of selling 865 million pounds (lb.) per year, much hangs in the balance.

Fig. 1: CAB grid premiums paid by processors, annual dollars



Source: Certified Angus Beef LLC.

Fig. 2: Boxed beef cutout values and spreads, 2008-2013



Record Premiums

"If demand for CAB product outstrips supply, consumers will begin to search for alternatives," he says. "It's clear that Angus producers' focus on genetics that include marbling has put money in their pockets, but they must work to ensure there is an adequate supply, or risk losing those premiums."

Of course, most producers don't own their calves through the finishing phase, but information has integrated the market so that some premium reaches everyone who makes the effort to aim for quality. Dividing total CAB grid premiums over the last few years by the number of cattle accepted for CAB equates to approximately \$15 per head, but many ranchers realize more like \$15 per cwt.

On the other hand Brown says, "You can begin to see the end of the market for average cattle in this country," other than growing discounts. Solutions are in reach.

"Just as new technologies document added value or the lack of it, advances in genetic prediction and breeding technologies make a step up to premium production an easy and relatively low-cost prospect for most commercial producers," he adds.

Producers confident in tools

Angus breeders like Sydenstricker Genetics manager Ben Eggers, Mexico, Mo., say the CAB brand's impact and their ability to respond grow in tandem with the record premiums paid.

"In the earlier days of CAB we often heard 'Where's the premium?' I haven't heard that in quite a while," Eggers observes. "The value of superior carcass merit is well-documented now, and many top commercial cattlemen have reaped the benefits. As that pull-through effect grows even stronger, I think we'll see even more increase in beef demand as the average quality increases."

At the calf level, the soaring premiums move past any perceived "black hide" advantages.

"The real premiums go to the cattle that are actually bred to increase end-product merit," Eggers says. "I think we'll start to see more differentiation in the marketplace for those cattle with documented higher carcass value."

In many areas, that day is here.

"The CAB premiums help explain the huge price spreads we've seen lately based on quality," says Malta, Mont., seedstock producer Dave Hinman. "It's been \$20, \$30 per hundredweight or more on the same weight cattle."

Hinman told of one sale where 430-lb. Angus calves brought \$2.21 per cwt., "really good for that day." Soon, a larger group of four-weight black calves, "probably Angus but common-looking with no information behind them had a hard time getting to \$1.76."

The difference of nearly \$200 per head shows great buyer confidence, he says. "The feeder couldn't afford to pay that if he didn't know a lot about the calves. They have to watch everything pretty close."

Angus breeders say the genetics to make such calves just weren't available 20 or even 10 years ago. Hinman says balanced excellence has been a step-by-step process for seedstock producers and their customers.

"I don't think we have ever seen stronger demand for bulls that are balanced across the board. We put all the numbers in our sale catalog, and our customers look at all of them," he says. "They want it all, just like the next buyer, all the way to the people waiting to be seated in a steak house — and people will pay to get what they want."

Science, performance data and common sense used in concert can create

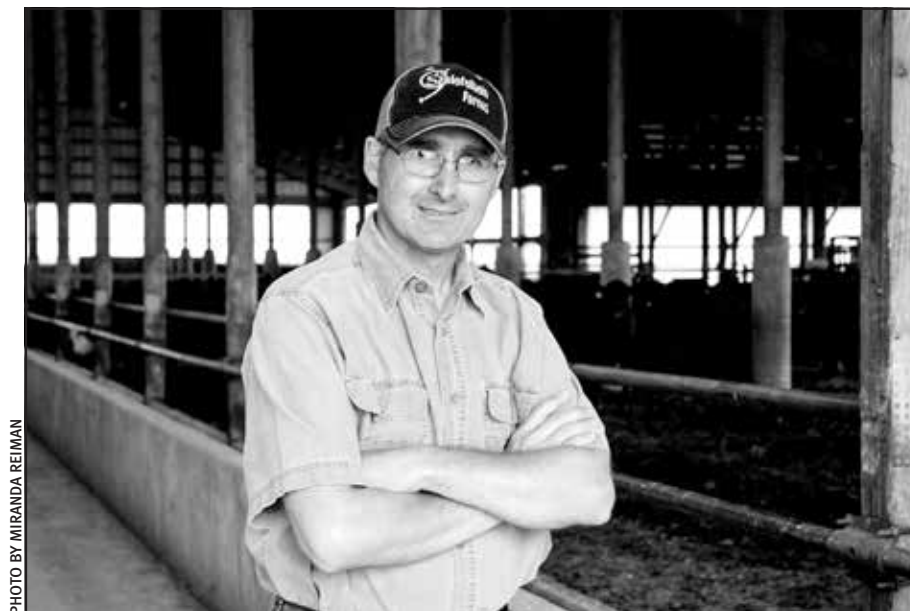


PHOTO BY MIRANDA REIMAN

When all calves are selling for record-high prices is "the perfect time for genetic upgrades," says Don Schiefelbein, whose family operates Schiefelbein Farms at Kimball, Minn. "Get your genetics in order to add value to your calves. It's a sweet time to invest for a whole new level of prices."

those genetics. "But you can't forget any one of those. You want to make sure you can stay where you're at or get better in every trait," Hinman says. "Don't ever back up."

As a regional manager for the American Angus Association in 1978, it was Dick Beck's duty to act as an airport shuttle for some of the dignitaries who were there when the first pound of CAB was sold at Renzetti's IGA in Columbus, Ohio. Having grown up in the meat business, Beck says he never lost sight of the carcass side in breeding cattle.

Now as general manager of Three Trees Ranch, Sharpsburg, Ga., he says Angus cattle have come a long way but could have made an even greater impact on the beef industry, sooner.

"As a group, Angus breeders made the mistake of letting commodity-thinking people control the conversation for way too long," Beck says. "They talk about the Choice-Select spread. That doesn't mean anything to us. If we're not making at least Choice cattle, we're not in the Angus business."

Over the next five years, he expects that spread to be narrow, "nonexistent at times. But that's not a signal to back away from CAB and Prime. Those are the two that earn money for our customers."

Noting recent Angus bull sales with averages above \$9,000, Beck says, "Some people say Angus bulls aren't worth that much. I will admit not every Angus bull is, but if you get 100 calves in his life and 40 of them grade Prime, that can add \$8,000; if 40 more make CAB, that could be another \$3,000."

Those are premiums above the market, he notes. "It's pretty easy to see that kind of bull is worth \$10,000 more than an average bull whose calves won't do that."

Commercial producers are

understandably concerned with fertility, fleshing ability and other maternal traits not easily measured, but they sometimes ignore carcass traits.

"The cow herd traits have a big economic impact, but they're not very heritable. Carcass traits are highly heritable, so it is easy to make progress or lose ground," Beck notes. "Of course we should keep working on the cow herd, but why would you walk away from making progress on a trait that's easily improved?"

Perhaps indifference comes from watching almost any calf bring twice as much money as recent memory.

"Some say all cattle will be worth premium prices, but I disagree," Beck says. "All will be in demand, for a while. With the overcapacity in the feedlot sector, there will be a mad scramble to fill pens for a while, but when those cattle lose money and the financially weak go out of business, they won't be there to bid the next time."

"The good news is in the Angus business we have the tools to build more of the cattle that can do it all. For years we had to cherry pick to find quality, but no more," he says. "It used to be that finding quality, whether in cattle or beef, was like going deer hunting. You might find some, and you might not. We're finally to the point where we can design a system that produces premium beef every time if you do everything else right. That's exciting."

Don Schiefelbein, whose family operates Schiefelbein Farms at Kimball, Minn., agrees the past few years have seen a dramatic change in the realm of genetic possibilities. The farm buys calves from bull customers and finishes 20,000 head per year to sell on a grid.

"Making the cattle do 85% or 90%,"



PHOTO BY STEVE SUTHER

"The CAB premiums help explain the huge price spreads we've seen lately based on quality," says Malta, Mont., seedstock producer Dave Hinman, pictured with his wife, Yvonne. "It's been \$20, \$30 per hundredweight or more on the same weight cattle."

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even 100% CAB was unheard of just five or six years ago," he says. When they do, as a fair number of loads did last year, the breakeven equations go out the window.

"Say you have two steers and one makes CAB and one doesn't," Schiefelbein narrates. "It costs nothing more for the

one that earned the premium — it's all extra dividend, added value built in. That's why breakevens mean nothing when you try to factor in 80% CAB."

In the buy-back system, the family knows calves will live up to expectations and that kind of relationship is essential.

"It's like we say starting out with anybody: In God we trust; everybody else, show us proof," Schiefelbein says. Any commercial producer can begin by listing all bulls and their seedstock source. New tools like GeneMax™ will soon factor into added value.

When all calves are selling for record-high prices is "the perfect time for genetic upgrades," he says. "Get your genetics in

order to add value to your calves. It's a sweet time to invest for a whole new level of prices."

Some producers bought bulls for \$2,500 or less in 2013, but in January, a set of heifers from the Schiefelbein feedlot grossed \$2,500 per head on the rail, nearly all Prime or CAB. They were from a herd that had stacked high-marbling Angus genetics for three generations, the standing recommendation for all bull customers and one that can take decades to achieve across a herd.

Fourth-generation Angus breeder Landi McFarland, of Hoover Angus Farm, Ellston, Iowa, is younger than the CAB brand and literally can't imagine the breed without the brand.

"CAB has seen a unique situation in the past several years, with growing demand for the brand and growth in the numbers of certified cattle," she says. "That puts the brand and U.S. Angus producers in a position unlike any other in the world. Clearly, producers who are reaping increased premiums for cattle hitting the CAB target are more likely to continue using quality Angus genetics."

It further solidifies the breed's premium position in the world.

"No other breed can put together as many economically important traits as Angus and have such phenomenal pull-through demand for beef, thereby generating sustained demand for Angus genetics," McFarland says. "CAB makes money for everyone at each link in the beef industry chain."

The most effective leadership is by simple example, Beck says. "You can't tell people to aim for premium quality, but you can keep showing them a business model that works, so that maybe they will see it and adapt."



Editor's Note: Steve Suther is director of industry information for the Supply Development team of Certified Angus Beef LLC.



PHOTO COURTESY OF LANDI MCFARLAND

Fourth-generation Angus breeder Landi McFarland, of Hoover Angus Farm, Ellston, Iowa, is younger than the CAB brand and literally can't imagine the breed without the brand. "CAB makes money for everyone at each link in the beef industry chain," she says.