Marketing for Black Ink

Pre-symposium seminar defines premium products, marketing plans.

Story & photos by
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Record-high cattle prices don't mean putting calf-marketing strategies on cruise control. "The expansion phase of the cattle cycle, just getting under way, means it is time to expand your marketing opportunities," said Mark McCully, Certified Angus Beef LLC (CAB) supply development director, in a December meeting. CAB presented ideas to help producers increase profit and understand the market for high-quality cattle.


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Ranchers from several states joined CAB and guest speakers in a "Marketing for Black Ink" seminar Dec. 5, 2005, just before the Range Beef Cow Symposium (RBCS) in Rapid City, S.D. McCully served as moderator and introduced a panel representing the foodservice industry and cattle marketing and ranching sectors.

Opening the seminar was Chad Stine, senior vice president of Buckhead Beef Co., a licensed CAB distributor from Atlanta, Ga. Addressing the concept of premium markets, he said consumers create them.

"It doesn't matter what I tell them; it doesn't matter what we establish at the packing level or at the production level. To my customers, perception is reality," Stine said.

For the last 50 years, we have associated beef premiums with quality grades, he noted. "USDA Prime is a premium product. *Certified Angus Beef* ® (CAB®) has become a premium product. Can USDA Select garner a premium compared to Choice? Yes, it can in some niche, or at certain times during the year. We may not market it as a premium program, but my customers dictate the definition to me," Stine said.

Prime was $10 to $30 per hundredweight (cwt.) higher than Choice last year, depending on the week. Many things can happen to affect that, but since only 2% of 440 million pounds (lb.) per week is Prime — compared to Choice at 50% of volume — scarcity helps keep it at a premium.

Premium numbers

Buckhead Beef, the largest foodservice steak cutter in the U.S., is still small compared to the whole industry, Stine said. Its plants in New Jersey and Florida process 700,000 lb. of beef per week. Total value of product sold through retail stores in an average week late last year was $3.50 per lb., while value of product sold at the foodservice level was $10.40 per lb.

"That's because 30% of retail sales are ground beef, and most foodservice sales are in the more expensive middle-meat steak cuts," Stine explained. "A satisfactory eating experience is still the measure of success in foodservice."

About 16% of Buckhead's mix is unbranded, USDA-graded beef. However, 90% of that is Prime. "Of course, that is a premium program, and that is why we pay four to five times average price for it. Choice beef is about 65% of volume; branded beef is over 35%; and imported is 5%," Stine said.

Chad Stine, senior vice president of Buckhead Beef Co., pointed out that it is the carcass specifications, which Angus excel at reaching, that make the CAB brand the premium product it is known to be.

If the company can sell product for a 7¢-per-lb. premium on average, "that adds up to almost $50,000 per week, or $2.5 million a year," Stine said. Buckhead aims to sell premium products to boost profits on its $650 million total annual sales.

"I don't consider Yield Grade (YG) 4 product a premium," he added. "The packer trims it off, and it never gets to my shop, though it may affect my price. The main question should be is it worth it to you to produce YG 4 and 5 to try for higher quality grades?"

Stine said Buckhead could make a 33% premium on imported grass-fed tenderloins, but on a narrow niche market to caterers. USDA Select filets were selling for higher premiums than Choice at the time, but CAB was a clear premium to both, and Prime was higher.

"CAB is 35% of my business, and we sell it at a 17% premium because of quality. Though mostly limited to a licensed group, it is international in scope, not a niche," Stine said. Buckhead increased purchases of CAB product by 20% last year, he said, but all beef products fill some demand. "I love Select, Choice, Prime and CAB. I love it all, and will find a group to market it to, often at a premium, because we can give them exactly what they want," he said.

Buckhead does that by custom-cutting steaks and other foodservice items, such as the flat-iron steak. "It used to be part of the chuck, [and] went into roast or ground beef," Stine said. "We could get a 22% premium for it as part of the chuck, compared to a 44% premium when broken out. I can also create premium items by dry-aging — 30% over other aging," he added.

Smaller is better

Stine said the biggest problem in foodservice is the oversized ribeye that comes from today's heavyweight carcasses. "I would love it if you could produce 14-pound strip loins, but I can't live with the 18- to 22-pound ribeyes that I have to take to the market," he said. Smaller, 12-lb. strip loins sell at a significant premium per pound, but they are always in short supply.

"When I can't fill an order, the customer says, 'but we have a contract!' The problem is, the packers are not filling our contract. My customers don't understand why we can't control weights in the industry," Stine said. The 17-lb. wholesale cut that yields something too large for the dinner plate is about a 16-square-inch (sq. in.) ribeye.

"I pay a premium for lighter ribeyes, and I overbuy 40% on contract to get more light product," he said. Employees literally hand-sort boxes of heavier cuts in search of lighter ones, Stine said. "We get

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creative with portion size and presentation, take the cap and lip off, anything we can do." The top customer would take 15,000 lb. of lighter-weight ribeyes per week, but supply sometimes dips to only 2,000 lb.

Market signals don't work to fix the problem because larger tenderloins and strip loins are premium products, and overall packer efficiency favors the heavier carcass, he noted.

There are "huge premiums associated with natural," Stine said. "If you are not producing it, you should consider it. We have more requests for organic product now, too, compared to none four years ago. We started with natural two years ago and will build it up before taking on organic." Natural averages a 40¢-per-lb. premium over other beef, and organic will be that much more over natural, he said, noting that steak houses drive sales.

Cattle marketing sector

Ken Conway was an Angus producer in Texas when he had the chance to talk with CAB founders in 1977. "I said it's probably a good idea, but no way it will work," recalls the president of GeneNet, a Kansas-based cattle marketing alliance. "That shows, even though the industry is huge, there are places where the right idea can make a difference."

His own idea made a difference, too. "I tried to add value by selling bulls to commercial producers, but if they fed their calves, everything was priced the same. There was no way to get paid for carcass improvement. I thought, if we are ever going to get a premium for calves, it will have to start with the packer."

Conway took time out in 1991 to get a doctorate at Texas A&M University, working with Bill Mies.

"I saw the rise of branded beef and a need for a supply system to develop those programs," he said. "I wanted producers to get maximum dollars for their calves, feeders and finished cattle, and to help them improve those cattle. That meant developing working relationships between purebred, commercial, feedlot, packer and retail sectors."

"If I show them the money, they will go produce it," said Ken Conway, president of GeneNet, a cattle marketing alliance.

He helped start Angus America as a grid marketing supply chain for Beef America in 1995. When that packer went out of business, Cargill Meat Solutions picked up the alliance, while Conway started again with Swift & Co. His GeneNet marketing alliance started eight years ago and hit a near-term peak in 2003, when more than half of all fed cattle were sold on grids.

"I told packers once producers get those grid premiums, they will never go live again," Conway said. "That is the trend, though our volume was down sharply in 2004. We work with 1,200 cow-calf producers, representing 600,000 cows, 120 feedlots and the nation's third-largest packer," he said. GeneNet cattle go to Swift plants at Grand Island, Neb.; Greeley, Colo.; and Dumas, Texas.

Montana Branded Beef Association, formed in 2001, joined forces with GeneNet last year and plans to develop a branded product, Conway said. "If I sell 150,000 really good cattle a year, I have a little bargaining power with the packer," he noted. About 80% of GeneNet volume is in Angus-influenced cattle.

Show them the money

The network of contacts allows forward contracting and placing ranch calves with feedlots. "We are flexible and work with any feedlot; basically, we don't require anything," Conway said. "Producers say, 'I won't change unless you pay me.' … I sort the data and show them a $350 difference top to bottom, and they want to know how to find those cattle. They begin to tag calves.

"If I show them the money, they will go produce it," Conway continued. "The first premium I got for CAB was a buck; now it is $5 per hundredweight, and it has never decreased."

Producing for premiums requires focused genetics, he added. "After seeing a million closeouts, I can tell you what genetics you need, but I won't tell you where to buy them because I have relationships with many purebred producers."

GeneNet is not a "captive supply" program, Conway said. "We bid the grid one week and harvest the next, or you can choose to use a weighted average." Cost is $3, $5 or $7 for group, tag-transfer or detailed carcass data. Purebred customers rely on GeneNet for accuracy, he said.

Grid marketing rebounds

"If it wasn't for CAB, we wouldn't have tried this," Conway said. "That was the premium to negotiate. Now, we are working on a market to 'premiumize' more of the cattle on several grids to get more data to more of the producers. Some of the guys who have been with us from the start have made amazing progress on the ranch, cost of gain in the feedlot and value on the grid."

It is often management, not genetics, that limit success on the grid, Conway said. There are too many YG 4s because of cheap corn and expensive cattle.

"The guys who really make money on the grid always let the cattle dictate when to sell," Conway added.

Since 1998, the 722,000 head sold through GeneNet averaged a $23-per-head premium compared to the cash live price. The top 75% made $32, top 50% made $43, and the top 25% made $62 premium per head compared to the cash live price.

"That's serious money," Conway said. "We have put $16.5 million back in our customers' pockets."

Traditional ranchers who sell at weaning may have to reconsider plans as the cattle cycle turns. "If you are going to survive, how you handle tradition will determine your future. In three or four years, calves won't bring such a premium, but the guys on our upper 25% will remain in control when it turns," he noted.

Grid marketing is on the rebound, Conway said. "Our numbers will continue to come up. When they have to pay so much for the calves, if there's any weakness in the cash price, feedlots will manage to get the most out of them on the grid."

Asked what cattle work best on the grid, Conway idealized the Prime YG 2, 949-lb. carcass. "There are really good Angus genetics that can grade and perform," he said. "They will hit 100% Choice, 60% CAB, mostly YG 2, and really knock down the premiums. Calf-feds will grade because they are in more progressive hands compared to yearlings. Fall-calving cows may be the best bet to hit seasonal markets, and source-verified cattle are becoming part of the premium picture."

Commercial cow-calf view

Gary Johnson, a former Beef Improvement Federation (BIF) president and past BIF commercial producer of the year, ranches near Dwight, Kan., with his sons.

"Sometimes the challenge is to admit I've been wrong for 40 years," he told ranchers in Rapid City. "We have our combined operation, and the sons have cows of their own. I have 1,000 spring- and 250 fall-calving cows. We sell steers via U.S. Premium Beef (USPB) and hold

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shares in it, but there are times when we don't feed cattle to take advantage of opportunities in the calf prices."

Flexibility is a key to profit, Johnson said. Although no herd can achieve perfection, ideals are worth pursuing — up to a point. "We use ultrasound and sell at the right time, but 5% of our steers are not the right kind, and it seems we always have those," he said. "It takes four steers that make CAB to make up for one YG 4, so you can't have those discounts."

Johnson often buys feeder calves, too, "but they are more commodity cattle, bought by what we see, not what we know," he said. The purchased calves have a lot higher incidence of health problems, compared to Johnson's own calves that have preweaning shots.

Goals are important, Johnson said. "We want to produce a safe product and make a profit. But the main thing is, we have to stay in business. We have to think like our customer to be more than just commodity producers," he said.

Down the road

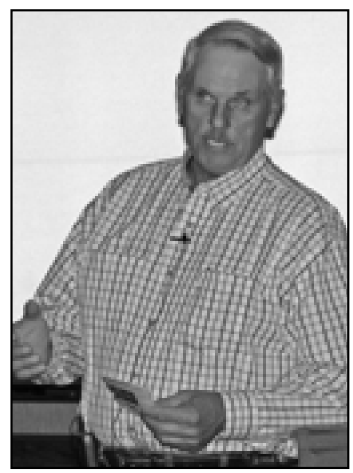
Seedstock producers have to look several years down the road in deciding what bulls to produce. Johnson said commercial producers need to take a similar long view.

"The bull you select today will still show his influence in five generations, so you can't afford mistakes," he said. To track performance, you have to know how your calves do once they leave your place.

"One way to learn, but maybe not get the top price, is to sell at private treaty (with data return negotiated), or retain ownership on a small percentage of calves," Johnson said. "When USPB was formed, everybody knew their cattle were above average — until they got into it. You couldn't blame your own company. We always thought the packer was the enemy, the problem. He's just playing the hand he gets."

Keeping any breeding stock, whether heifers or bulls, requires thinking about where you want to be in four or five years, Johnson noted. "By the time we produce it, the calf might be different than what we want. You have to take responsibility every year, know the seasonal markets and target a finished date other than the low."

Johnson challenged producers to research cattle purchases at least as much as they would when buying a new pickup. "If you see 100 pickups in a row, same color, you have to check the sticker on the window. We have to know what's on the sticker, what premiums those calves deserve," he said.



"It takes four steers that make CAB to make up for one YG 4, so you can't have those discounts," said Gary Johnson, past BIF commercial producer of the year.

"It's hard to think about change when everything is going well," Johnson continued. "But, we need to get to work to make it work in the next few years. Create cattle that are sought after. Keep in mind that source-verified may soon earn a $40- to $50-per-head premium, but soon after that they will be the standard, with discounts for the rest."