

A Q&A with John Stika

The chief executive of the world's leading branded beef program shares some insights.

Story by
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John Stika has served as president of Certified Angus Beef LLC (CAB) since November 2006. He came to CAB's Manhattan, Kan., office in February 1999 as assistant director of its Feeder-Packer Relations Division. Subsequently, he became director of that division, then director of the Packing and Supply Development divisions.

In 2005, he became vice president for business development, and he helped lead the company's sales divisions: Retail, Foodservice, International and Value-added Products.

A native of Lincolnville, Kan., Stika grew up on a diversified livestock and crop farm. He earned a doctorate in meat science from the University of Kentucky, following bachelor's and master's degrees in animal and meat science from Kansas State University.

Stika and his wife, Deanna, moved to Ohio in 2002 and currently live on a small farm near Creston, Ohio, with their three sons, Tavis, Gavin and Maccoby.

This question-and-answer exchange is intended to help Angus producers get to know Stika, the 37-year-old chief executive officer (CEO) of the world's leading branded beef program.

Q: CAB celebrates its 30th anniversary next year, but you can scarcely remember a world without the brand. Founding CEO Mick Colvin saw the need and helped start it all in 1978, and former president Jim Riemann watched it develop from the outside, as a meat scientist. You're also a meat scientist, but you worked your way up through the ranks. In what way did that eight-year journey help prepare you for company leadership?

A: I've been blessed with the opportunity to gain perspective from within the company, from the production side to the sales and brand assurance side. It helped me understand how our uniquely structured, nonprofit company operates in a for-profit world. I'm flanked by 20- and 15-year members on the executive team, and many others who have been with the brand for 10 years or

more. That kind of expertise and insight is priceless.

The years have given me a chance to see how the American Angus Association and CAB work together and to appreciate the significance of our mission statement. I have a tremendous respect for all segments of the industry, and I've seen where CAB can have the most positive effects.

Q: When did you first realize that you might one day hold this position, and how did it fit your training?

A: I remember watching with great interest as Jim [Riemann] took up his duties as president. It wasn't about title or position, but Jim impressed on me the many opportunities that CAB provides anyone who has an interest in moving into other areas of the company.

The more I learned about CAB, the more intrigued I became. It all seemed to fit. When I was halfway through my [doctorate], I realized I was only an average researcher on my best day. I'm no research scientist, but the degree is a strong asset that helps with my understanding of the industry and lets me complement a lot of the expertise we have in the program.

Q: How can producers best get involved with producing for the brand?

A: The most direct way is to use a registered Angus bull. That ties in with all the pull-through demand for *Certified Angus Beef*® (CAB®) that we've documented, creating premiums at all levels — feeder cattle, replacement females, fed cattle, boxed beef, take your pick. As producers look for more ways to improve and garner rewards for hitting the CAB and CAB Natural targets, they may want to build relationships with feedlots and capture data through our Feedlot-Licensing Program (FLP).

The rewards only get larger as you get closer to the end product, and that takes you to retained-ownership options. Nobody can make more money from high-quality cattle than the original producer in today's market. Angus feeder cattle require a premium. Angus fed cattle

require a premium. But the stocker-feeder operators must work on a margin. The high-quality, Angus-focused cow-calf producer is not a margin operator.

Those are the main avenues. Use a registered Angus bull and you're part of the club. Market those cattle through a system that rewards the quality opportunities those cattle represent. The more coordination and participation in ownership and information gathering, the more long-term benefits.

Q: What's the biggest challenge facing the beef industry?

A: Maintaining its focus on the consumer. It should be easy to keep our eye on the prize, which is long-term growth in beef demand. But some technologies today offer short-term gain at the expense of beef demand overall.

Q: How would you rate the industry on its mission of becoming consumer-driven?

A: We've made some great strides. You can go back to the early National Beef Quality Audits (NBQA) and see that we've addressed a number of issues, one of which is tenderness. Still, we can make much more progress in marbling, consistency and uniformity. Conflicting economic signals have made it difficult for the industry to address some of these concerns, but we need to continue to address the need for higher quality grades. More specifically, we must continue to address the area of flavor.

The more inherent quality we can put into our cattle before they reach the packer, the more value-added reward potential for producers. We hear about the demand for young, extremely lean beef, pumped with salt solution. But most of its value is added after harvest, at the packers' expense. There's no reason for them to pay producer premiums for such cattle.

The Angus breed has contributed much to the beef industry. We've seen these cattle with more muscle that can go to heavier weights. We've increased the marbling, yes, but now we need to use the tools available to keep up that pressure, balanced by the economics of



efficiency and functional females and bulls. By applying these tools and technologies, we can grow supply of high-quality product. We're going to need that to keep meeting and exceeding consumer demand and expectations.

Q: What role is technology playing?

A: Camera systems in the packing plants have helped and offer a lot of potential in sorting for quality in the plants. More technology is currently being focused on identifying tender product. If the end-user trade is willing to pay for that, it helps us out in growing consumer acceptance of the product.

There are many innovations in animal health that keep our cattle on track and feeling less stress as they transition through the weaning process to efficient feedlot production.

At the same time, not all technology is friendly to quality. As we feel the pinch of thinner margins due to energy and feed costs, we start looking for short-term margin fixes that increase efficiency or increase gain. We must beware of technology that provides a short-term gain to one segment of the industry while, as a whole, we end up losing because we've produced something our consumer does not want.

We create no dollars in this industry; they all come from consumers. We have to maintain focus on what they want if we expect them to divert dollars from their wallets from other protein sources into the beef industry.

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Q: How will the traditionally segmented industry transform itself into one focused on consumer demand?

A: In this diverse, extensive industry driven by free enterprise, the opportunities for positive impacts are as great as those

for negative changes that only drive more segmentation. At the end of the day, we're going to be driven toward a more cohesive approach to producing to hit targets. Not all products will need to hit the same specifications.

We'll get to the days when the economic model of random production of

random beef product, sorted at the packing plant will be very difficult to sustain. Increasingly, we'll see cattle targeted for specific end points and merchandised as such. The opportunities for one segment to take advantage of another in this industry are going to be fewer and farther between.

Q: Angus genetics dominate the U.S. cow herd today, and some say the Angus share is becoming too great. Your comments?

A: We haven't seen that yet, and I don't know if we will. It holds true that those most resistant to change are those who benefit most from the status quo. Some people never thought we could have low-birth-weight, high-growth cattle either, but economic incentive met breeding ability and it happened.

The industry is driven by economics, of course. Consumers will tell us, with dollars, what we need to do and where we need to be. Right now, they're telling us we need more Angus in the mix.

Q: In the 1990s, coming off a decade of tremendous growth, some projections had CAB annual sales reaching 2 billion pounds (lb.) by now. How would you characterize sales growth potential now?

A: There's probably not enough cattle out there today for us to be a billion-pound program. At 8% of the industry, where we are, we can feel the strains and opportunities that the commodity industry feels. Perhaps in the early 1980s we represented a niche market, independent of the mainstream marketplace and, by definition, small. Today, we're fully affected by all the dynamics that the industry faces, from drought, BSE (bovine spongiform encephalopathy), implants and corn prices to literally all production technologies. I don't know how big you need to be to go past the niche level, but I know it's somewhere less than 8%.

As we look at demand in the near term, we know we can be a 600- or 650-million-lb. program. The supply is shaping up today, and there's opportunity to grow above that. We know that to hit 1 billion lb., we'll need more cattle in the mix, probably from a combination of greater numbers of Angus-influence cattle and greater ability within those cattle and their management programs to hit the CAB target. Either way, the impact on Angus values could be huge. No other breed can better provide the genetics to fill that demand and do it under current management systems.

Q: Similarly, an old list of long-term objectives for the American Angus Association included a 30% CAB acceptance rate. What are the prospects for an improving rate of acceptance?

A: Straight Angus cattle can easily do 30% CAB today. If you're looking at an industry that's straight Angus, those goals are very doable. But we know that the mix in our packing plants is not straight Angus. Also, compared to the 1990s, we manage

cattle much more intensely for pounds of gain today, regardless of quality. We've got younger cattle in the mix that have tremendous growth genetics in them and can grade — if we keep them healthy. There are about a dozen production challenges to hitting a quality end point today, as pointed out in our 2006 white paper. I'd hate to see where we'd be with quality if it weren't for the Angus breed.

Q: How can commercial Angus producers overcome some apparent limits to growth in acceptance rate?

A: Economics and education. Producers will notice the stronger economic signals and opportunities for reward that they're currently not taking advantage of, such as grid premiums or marketing through cooperative groups. As demand for CAB continues to grow, the marketplace will adjust, too, to further differentiate rewards for producers who can hit the quality target.

Everything happens because of economic signals. Today we see not only the increased average spread between Choice and Select beef values, but finally the widening spread between Choice and CAB values. The more we can make producers aware of these signals, the more they can take advantage of them. That's why we will continue with educational programs to help producers transform their herds from commodity to quality.

Q: Cattle may now be evaluated for CAB based on phenotypic or genotypic (AngusSource®) criteria, but almost all supply still comes from the phenotypic side. Do you see an expanding role for AngusSource or any other technology in supply development?

A: As long as black hide is dominant, there will be challenges in growing the acceptance rate for all cattle, as well as the percentage of cattle with genotypic qualifiers. The issue hits cattle feeders the hardest. We'll do all we can to help them see which cattle are more capable of hitting the CAB target.

Obviously, those AngusSource cattle are 50% Angus or more; that's where we create the added value. That's where we can aim Angus genetics at our carcass end point, do it efficiently and with a greater profit opportunity.

Of course, most cattle in our mix will continue to come from the phenotypic side for some time. But the opportunity for demonstrating higher acceptance rates within AngusSource cattle could lead our program forward.

This cattle cycle is about to turn to where producers will find it hard to make money without differentiating their calves based on information. The most profitable quartile will provide the next segment of the industry with something more than a calf, something approaching a guarantee that these cattle

have the genetics to earn premiums in a marketplace with growing demand for high quality.

That's where AngusSource should come in, not just an eligibility tag, but backed by information that says these calves will hit the CAB target at a much higher rate than low-percentage Angus cattle.

From our database, we know the CAB carcasses are bigger than non-certified carcasses. They're more valuable because they grade better. As cattle, they're more efficient and gain quicker; the data support that. We support any technology that gives us an increased ability to produce a high-quality calf that can hit CAB specs

with added predictability. That includes the EPD (expected progeny difference) and \$Value (dollar value index) tools, and anything that fits those requirements on the feed efficiency and feedlot gain side.

