



Your Link to

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These trends could have far-reaching economic consequences

You go about the business of raising calves, weaning, feeding, breeding and marketing your cattle. Whether as an individual or part of an alliance, you do these things as part of the U.S. beef industry. Sometimes it may seem as if everyone in the industry is going his or her own way, but the results show producers have many characteristics in common.

Analysts look at the results and see trends. Perhaps the trends are unintended results of your past activities, but they will nonetheless influence your future. The beef industry, like every other industry in our global economy, is a dynamic system that changes with the actions of its members.

Some trends feed on themselves and grow to shake up the industries they represent. Within the beef industry, startling changes and trend developments during the past year could have far-reaching economic consequences. Let us examine a few of these.

Trend: Angus-type cattle surpass 50% of fed-cattle mix

More than 80% of the fed-cattle population is harvested in Certified Angus Beef LLC (CAB)-licensed plants. For this lion's share of fed cattle, eligibility for the *Certified Angus Beef*® (CAB®) brand must be determined. In late 2002, following a long-term trend line (see Fig. 1), Angus-type cattle exceeded 50% of the total fed-cattle mix.

Throughout the past 20 years, the impact of Angus genetics has gradually transformed the beef industry,

increasing the percentage of Angus-type cattle by 2%-3% per year.

Based on breed of bull usage data, that figure should reach 60% by 2005-2006. The economic benefit of this trend to Angus producers is enormous.

Trend: Growth in beef demand

All the world seemed to know that fed cattle would sell in the high-\$60 to low-\$70 range this past summer; what the "world" did not grasp was that the increased demand for beef would lead to fed-cattle trading in the low-\$80 range.

This resulted in all segments of the beef industry making money at the same time for one of the few instances in the storied history of our industry. Seedstock, cow-calf and feedlot producers raised cattle profitably, while packing, retail and foodservice sectors were also profitable.

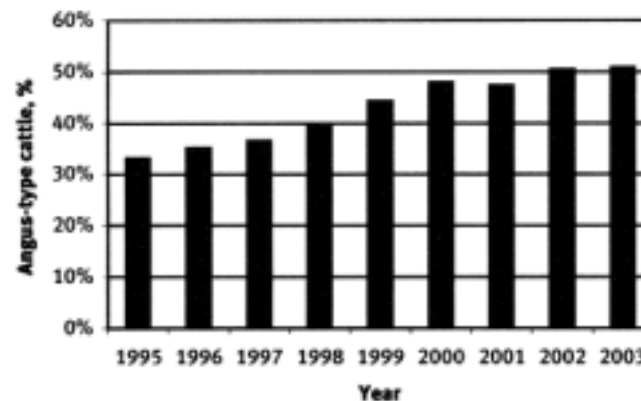
Trend: CAB growth re-established

The 1990s saw impressive double-digit growth occurring in CAB tonnage, resulting in more than half a billion pounds (lb.) of product sold annually. Then 2001 and 2002 brought global changes to our doorsteps, but sales stayed steady. In such years of worldwide economic challenge, holding steady was a compliment to the strength of the brand, but not what we expected to occur.

Starting in summer 2002, CAB product sales took a strong upturn, resulting in an 8%-10% growth in product sales for fiscal year (FY) 2003.

The economic consequences to Angus producers are obvious.

Fig. 1: Percent of fed cattle identified at harvest as Angus-type cattle



Trend: Growth in demand for high-quality beef

As the 21st century started, an obvious question was what would happen to the demand for higher-quality beef products in the marketplace. The message has been sent by retail, foodservice and international markets that the demand for quality continues to grow.

All of the major retail chains now have added premium beef lines to their beef product mix in their upscale stores. The number of restaurants and international beef distributors asking for higher-quality product is up.

Is this evident at the production level? Yes. The Choice-Select spread has reached all-time highs of \$20 per hundredweight (cwt.) for carcass, and CAB grid premiums exceeded \$10 per cwt. this year. Prime CAB sales have resulted in more than 5 million lb. sold this year.

The messages are clear: "High-quality beef sells," and it sells "at a premium."

Trend: Cattle are priced on their economic merit

Why bother to produce quality when pounds are all that matter? It's a question often asked by cattle producers, but it's a question based on assumptions from the past.

Today, 50% of all fed cattle sell on some type of grid or formula. Yes, pounds still matter and always will. But the major economic impact of quality grade is present in virtually every grid that exists today.

Trend: The players in this industry keep changing

Who in their foggiest imagination would have expected four of the five major packers to change ownership in

12-15 months? And that's only a small part of the dynamic structural change occurring in our industry.

Changes in feedlot ownership, and retail and foodservice consolidation are almost impossible to track.

The questions beg answers: Where do I fit in the changing structure? How will all this affect my future? Wouldn't we like those answered?

Trend: Growth in new uses of chuck and round muscle

When the National Cattlemen's Beef Association (NCBA) initiated the "value cut" project to evaluate expanded use for chuck and round muscles, few expected the rapid adoption of that information. Today, demand for the *teres major* and flat-iron cuts exceeds the packers' ability to produce them.

CAB has been an industry leader in showing restaurants and retailers how to market these formerly underutilized cuts.

Trend: And all the rest

The last 12 months have seen our longstanding beef checkoff program hanging on by a thread, the pending impact of the country-of-origin labeling (often referred to as COL or COOL) legislation, and universal identification (ID) of all cattle on the horizon. What is next? Don't we wish we knew?

Care must be taken when evaluating trends. Yet, it is important not to ignore trends, for the economic consequences of doing so may not be pretty. Trends that seem to be positive developments create their own challenges: Are we smart enough to capitalize on the trends? Can we find answers to keep the trends going? It may seem like trying to predict the weather, but that is the economic climate in which we live.

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