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Time for Prime

Part 2: Demand to bank on.

by *Miranda Reiman, Certified Angus Beef LLC*

I don't see a time in my lifetime when Prime's not a big premium. I just don't see it."

Steve Williams, head of procurement for JBS USA, can say that with some confidence. He's been on the cattle-buying side of the equation for enough years to identify a strong market signal.

When he sits across a desk from Chris Ross, sales program director at the company, that message gets even louder.

"*Certified Angus Beef*® [(CAB®) brand] and Prime — that's the highest-demanded product we see at this time," Ross says.

Supply driving demand

Supply of the uppermost tier of beef has doubled in recent years, with up to 6% of the nation's fed-cattle harvest grading Prime. That has opened up new doors, says Mark McCully, vice president of production for the *Certified Angus Beef* brand.

"In a lot of cases, supply has fueled the demand, which in turn has given producers incentive to produce more," he says.

Sales of CAB brand Prime were up 26%, to 15.2 million pounds (lb.) last year. The brand extension has more than doubled volume since 2010, while USDA certified

Prime programs have nearly tripled to more than 40 million lb.

"We've had *Certified Angus Beef* accounts on our traditional program that, with available product, took the opportunity to increase their offering up to CAB Prime, therein exposing more people to beef that they maybe only had at a super fancy restaurant before," McCully says. "That then drove the demand, them wanting more."

Economics proves that theory. For the last decade, the average annual spread between Select and Prime ranged from \$25 to \$50 per hundredweight (cwt.), averaging \$35 per cwt. for 2016 — all while cattlemen produced more of it.

During the last half of that period, weekly Prime production on a carcass-weight basis rose 8.9 million lb., from 13.7 million lb. per week in 2012 to 22.6 million lb. in 2016.

Mike Drury, western region president for Newport Meats, confirms the well-understood notion that white-tablecloth, five-star steak houses drive the bulk of Prime purchases.

"Those would be the core customers traditionally associated with buying the highest-graded U.S. domestic beef," Drury says.

Looking specifically at the premium Angus brand from 2006 to 2015, the CAB Prime over Choice spread on the rib primal was increased 88¢.

"Newport has always been heavily focused on the highest quality grades," Drury says. "We had to fight harder to get the product for several years."

In today's market, another group of Prime customers is starting to open their wallets.

"With cattle prices coming down into normal historical ranges, we've got more availability, and there are some other trends emerging that are allowing people to experiment more," he says.

Trends like "small plates" and more "eating in premium bar areas," have inspired deconstructed steaks and pulling out underutilized cuts, Drury notes.

"That allows restaurateurs to play around with higher-quality proteins than they would have normally thought to," he says.

Ethnic markets are growing, and Newport sells more fabricated cuts — thinly sliced, for example — to cater to that market.

"We're finding other segments starting to emerge as being more quality-conscious," he says.



PHOTO BY MIRANDA REIMAN

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In the United States, Ross estimates three-fourths of JBS Prime sales are middle meats into foodservice.

“It’s driven largely by the loin and the rib, but the utilization and the value can be across the carcass,” the packer says, looking to the future.

Having a growing, and more consistent, supply of highly marbled beef helps sell it.

“When a customer orders something, it’s very important that we fill his order because he’s made plans. He’s made a sales plan,” Ross says.

Landing large retail accounts is one way to increase carcass utilization, or the amount of Prime beef that is sold under that banner rather than subbed into a high-Choice box. Ross says traditionally that number has been between 100 lb. to 150 lb.

“The more we develop retail, the better

that utilization becomes,” he says.

Prime grinds are becoming more popular in the age of the “better burger” craze, and exports also create demand for end meats, Williams says.

“Our consumer is constantly evolving, and we’re constantly becoming more affluent both in the U.S. and abroad — 95% of our consumers are outside of the U.S. at any given time,” he says.

Consistency

Keeping all customers happy is part of what drives meat marketers to sell the top category.

“On the East and West Coast, it’s all about product and service differentiation,” Drury says. Serving Prime gives business owners a higher level of assurance.

Colorado State University research

showed, on average, just 3% of Prime middle meats were unacceptable to the consumer, compared to 18% for low-Choice and 34% for Select-grading cuts.

“Wanting to play at that high level, and then having inconsistency in there, your risk-reward for the operator is very high,” Drury says, noting that having additional specifications on Prime helps them sell “the best of the best.”

For example, CAB Prime also requires the brand’s additional carcass measures, like 10- to 16-square-inch ribeye and less than an inch of backfat.

He envisions a day when Prime is sorted into more categories, where inconsistency is nonexistent, but he’s thankful for the way cattlemen are responding with supply now.

“We are 100% reliant on what they do,” Drury says. Growing up on a Midwestern farm, he knows the work invested. “I would just say, don’t waiver from the quality because at the end of the day, that’s all we have. No shortcuts.”

As long as Drury’s customers and others across the globe keep buying it, cattlemen like Gerry Shinn of Jackson, Mo., will keep trying to best their own grading records.

“That’s why the premium is there. There’s a few times when it will narrow down a bit, but day in and day out, it’s always there,” he says. “I’ve just observed that it’s never difficult to sell a Prime.”

Will that always be the case? If somebody asks Williams when the packer will have enough Prime, there’s a sure reply: “I can tell you, we haven’t reached that point today.”



Editor’s Note: Miranda Reiman is the assistant director of industry information for Certified Angus Beef LLC.

High-quality ... Holsteins?

Even when Mike Drury is walking through a Newport Meats cooler stocked with Prime, he can see differences in the product.

“It’s all Prime, but I want the best,” he says simply. “Not all Prime is equal.”

The vice president is partially referring to figures showing up to 30% to 40% of all Prime-grading carcasses come from Holsteins, which “have a different eating experience.”

Dairy-influenced animals make up 15%-20% of the beef supply at any given point, so many are surprised they contribute that significantly to the highest quality grade, says McCully

“By the nature of the production system, these cattle are on feed for an extended period of time,” McCully says. “Also, milk and marbling are correlated traits, so these

dairy feeders have, unintentionally, been bred for marbling.”

Beef marketers, however, recognize the long muscle shape of Holstein middle meats as problematic when cutting portions.

That’s why Drury sorts the category in his cooler, making sure his high-end customers get what they’re expecting.

“When a chef is looking at the highest grade of meat, he really doesn’t care what we call it, he just wants to make sure it’s really consistent,” Drury says.

The *Certified Angus Beef* brand has live and carcass measures in place to restrict dairy influence from its supply.

“We know, for cattle to hit that high level of marbling, they have to have the genetic predisposition for marbling,” McCully says. “We know Angus cattle do that at a pretty high rate.”