

Utilization Revelations

About twice as much of each accepted Certified Angus Beef™ carcass sells as branded product, compared to the average of other brands. Therein lies the key to dependable producer premiums and product supplies.

BY STEVE SUTHER

Beef processors use every ounce of every animal that enters through their doors. Value per pound, however, ranges from a fraction of a penny to \$15 or more, depending on the part, its demand and use.

The beef industry term “carcass utilization” refers to meat per carcass sold above the base value of commodity ground beef. Within a supply of branded beef, it refers to the portion of each carcass sold as premium, branded product. Carcass utilization affects the price consumers pay for beef and what producers are paid for cattle.

Declining carcass utilization in the 1980s and 1990s had a negative effect on the beef

industry, explains Chuck Lambert, chief economist for the National Cattlemen’s Beef Association (NCBA). From 1991 to 1997, the value of the chuck, round and trimmings (called *end meats* because they come from the front and back ends) fell by 24%. Those cuts account for two-thirds of the beef carcass. Value of the rib and loin (the middle meats) increased by 7% in that time, but they’re only one-fourth of the carcass.

Beef grew increasingly leaner while a new generation of consumers lacked cooking skills, time and desire to convert it into convenient, palatable meals. Retailers tried to move the end meats they once had sold as

roasts by carving them into steaks, but that only aggravated consumer frustration with commodity beef. The beef had to be sold, so more and more of it went to hamburger at the lowest prices.

Lambert points out November prices for low-Choice end meats were \$89.20/hundredweight (cwt.) for heavy chucks, \$107.47/cwt. for rounds, up to \$59/cwt. for 65% lean trimmings and \$33/cwt. for 50% lean trimmings.

“A fabricator can either make a chuck or round into muscle cuts that sell for the higher prices or turn it into trimmings and grind it,” he says.

“Grinding is the lowest value, based on the lower trimmings values and on the fact that yield is lower than with semi-boneless cuts,” Lambert says. “However, consumers have to be willing to pay the price for those cuts if a retailer is to avoid selling them as ground beef.”

Anything but hamburger

In the last decade, when consumers weren’t willing to pay for fresh pot roasts, they forced more of each carcass into the lower-value hamburger market. That put a lot of upward price pressure on the middle-meat cuts, Lambert says.

Carcass utilization fell, along with prices paid to producers, while consumers backed away from higher-priced, but inconsistent, commodity beefsteaks. “The value of a steer is only worth the sum of the value of its parts minus the packer margin and profit,” Lambert notes. It follows that, as carcass utilization increases, producers receive more money for cattle while consumers pay steady to lower prices for beef.

Any discussion of adding value to “parts” brings up the broiler industry. “The chicken wing is a prime example,” says Mark McCully, director of packing for Certified Angus Beef LLC (CAB). “You take a piece of the bird that’s worth essentially nothing and make it a hot item.”

CAB Foodservice Director Mark Polzer agrees: “Hats off to them. The chicken industry has utilized the entire carcass at a high margin, convincing consumers that any type of chicken is better than beef, even if it is skin and scraps that are breaded and deep-fried.”

The chuck and round make up 51% of a beef carcass, twice as much as the middle meats. Therefore an increase of \$1/pound (lb.) in those end-meat values has the same effect as a \$2/lb. increase in rib and loin values. “Bottom line, adding value to the chuck and round increases the amount a packer can pay for an animal while maintaining a constant margin,” Lambert says.



Darren Dies, W&G Marketing Co., Ames, Iowa, says the company was founded with the idea of creating more value for end meats. W&G Marketing’s CAB shredded barbecued beef product was a finalist in the NCBA Best New Beef Products 2000.

Polzer illustrates the fallacy of concentrating on high-value cuts: "A 1,200-pound animal will give us about 12 pounds of tenderloin, or about 1%. That's why they climbed to almost \$16 per pound a year or so back.

"The real point is, we need to sell the other 99%. Carcass utilization is directly related to producer premiums on the live-cattle side and continued affordability on the end-product side," he says. Over the last year, increasing *Certified Angus Beef*[™] (CAB[®]) end-meat values has helped relieve price pressure on tenderloins.

Beyond middle meats

During the years when demand for commodity beef was slipping, demand for CAB brand product was soaring to record highs because the combination of consistency and high quality meant added value. Like most branded programs, in its infancy CAB concentrated on middle meats, McCully says. "They are the easiest to sell, most accurately priced and easiest to add value."

The CAB brand made the best cuts reliably better, commanding a premium price, and that was enough until the late 1980s, when CAB began to license major packers.

In the late 1990s, when the beef industry was criticized for tunnel vision on middle meats, CAB already had been part of the solution for more than a decade. With carcass utilization hovering at just more than 100 lb./carcass prior to 1987 (see graph on page 126), CAB focused on licensing more retailers to move beyond middle-meat sales, says CAB Retail Director Chad Stine.

Higher-quality offerings led to a recovery in demand for end meats among licensed retailers, he says. Within three years, average CAB carcass utilization had doubled, and more packers began to pay producer premiums. For 10 years, CAB maintained that level of carcass utilization among its licensees while tripling volume.

In 1998 CAB formalized its sales goal by requiring all licensed retailers to sell at least 2,500 lb. of product each month, with at least half of that being end meats. Most retailers prefer that balance anyway, Stine says, because it's cheaper to invest in CAB end meats than a like quantity of steaks.

High profile on end meats

For a decade producer premiums for CAB product had remained modest. Then the beef industry's quest for added end-meat value coincided with CAB's ongoing efforts in that area. A high-profile chef was asked in 1997 to develop recipes for the beef industry's muscle-profiling project. Michael "Mickey" Beriau, corporate chef for CAB-licensed foodservice distributor Dole & Bailey Inc. of Fiskdale, Mass., worked with



A checkoff-funded muscle-profiling study coordinated by the National Cattlemen's Beef Association for the Cattlemen's Beef Board aimed to increase the value of underutilized cuts from the chuck and the round.

NCBA, the University of Florida and the University of Nebraska in the checkoff-funded study for the Cattlemen's Beef Board (CBB).

The final report on that study, released last fall, details characteristics of 39 chuck and round muscles. Fat content, color, pH, water-holding capacity, connective-tissue content, bind capacity and tenderness were among the traits measured in the muscles cut from low-Choice carcasses.

CAB enthusiastically endorsed the work, while Beriau let his culinary and marketing creativity run free. Polzer notes, "It's a beef industry issue for us. If we can promote the use of underutilized cuts in general, then we can take it to the next level and convince other chefs to gain greater consistency, juiciness and flavor with *Certified Angus Beef* product."

Beriau is a true believer in the CAB product attributes. "Once we get the product in our kitchens so that our meat technicians see how to break down a steamship round, they take a lot of pride in their work," he says. More than half of the Dole & Bailey sales staff are seasoned chefs who appreciate the CAB difference, he adds. "That's how we increased sales from \$30 million per year when we first became licensed in 1983 to \$54 million today."

It has been easy to sell CAB end meats to other chefs, partly because it doesn't cost that much extra. "They could get Choice round for \$1.79 or *Certified Angus Beef* for \$1.85. For that price, what are they going to say? We get behind it and teach people how to work

with those cuts instead of just grinding it," Beriau says. "The more we sell chuck and round, the more we bring prices down on strips, ribs and tenders."

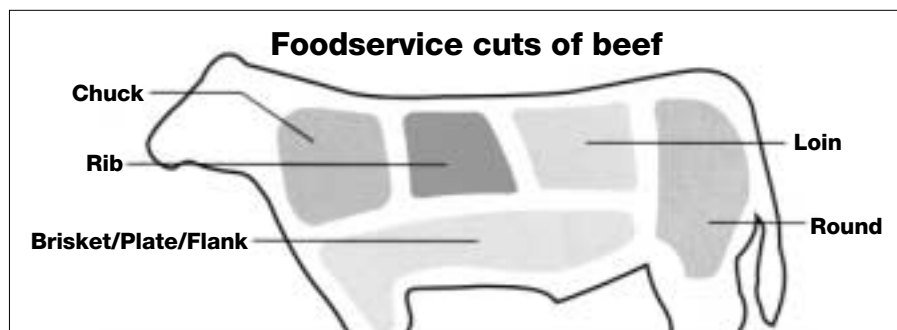
Utilization drives premiums

And the more CAB carcass utilization increases, the more producers are paid. Since 1997 historical premiums for carcasses accepted as CAB product have risen dramatically, in many cases tripling in three years. Among all licensed CAB packers today, carcass utilization varies from 150 lb. to about 300 lb. sold as CAB product, with an average of 286.5 lb./carcass. Packers that sell more of each qualified carcass as CAB product tend to pay higher CAB premiums on their grids, Stine says.

"They can afford to pay those relatively higher premiums, and may even increase them, because they can merchandise more of that carcass as *Certified Angus Beef* product at a small premium," Stine says. "Granted, it may be a penny or two a pound, but at 65% of the carcass, that can add up to another dollar per hundredweight of carcass overall."

Polzer explains that licensees are selling 85%-90% of middle-meat potential, but just 30%-50% of potential end meats. "Turn it around, that's really an opportunity for us. Why do we think we can sell more inside rounds, briskets and flanks for more than the competition? The consistent quality — taste, tenderness and juiciness — is higher," he says. "These items will generate 2¢ to 12¢ over Choice. If we sold in the 80% to 90%

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Source: North American Meat Processors Association/Institutional Meat Purchase Specifications

range, can you imagine what it would do to the value of that carcass?"

CAB specialists at each licensed foodservice distributor are dedicated to that ultimate goal. "The specialists work with licensed restaurants on how to use average pricing for economy," Polzer says. "We also develop unique recipes for those end meats, which helps drive demand."

When it comes to recipes, Beriau is among the best. His Roulade of Beef Gracillus using cap muscles from the top round and Empanada Ranchero using clod heart cap meat are showcased on the Web at www.doleandbailey.com.

Of the latter, he says, "It's like a chili, diced up, marinated, wrapped up with coleslaw. Put that beside the hot wings and Lunchables® in retail."

He tells of other recipes and presentations, often marinated and braized, that can double or triple the value of the whole-muscle cut. For example, the infraspinatus muscle from the chuck is popular as Barbecued Blade Steak and Beans. The muscle features a heavy cartilage element, "but if you filet that out, you get 5-inch wide, 12- to 13-inch strips — even cooked medium well, it melts in your mouth. We sell 1,000 8-ounce portions a week now."

Retail and value added

Stine says retail trade will continue to drive carcass utilization: "A restaurant can only utilize some of the end cuts. They're not going to plate a chuck roast. Retailers will

offer variety and feature value-added products, including deli meats and precooked products. Most of those products are made from the underutilized end cuts."

Brett Erickson, CAB value-added products director, says his division's primary charge is to find new ways to use end meats. Although value-added products made up less than 2% of Program volume in 2000 (10 million lb.), Erickson projects rapid growth to 60 million lb. in three years. He expects

that figure to be 100 million lb. in five years, then grow to about 10% of overall CAB product volume.

A CAB-licensed fabricator and value-added product developer

takes pride in pushing carcass utilization to new levels. Darren Dies, vice president of sales and marketing for W&G Marketing Co., Ames, Iowa, says the company was founded with the idea of creating more value for end meats. W&G President Marvin Walter was chairman of the industry's Prepared Beef Task Force and operates with the combined goals of increased producer profitability and improved quality and consistency of beef product.

W&G Marketing's CAB shredded barbecued beef product was a finalist in the NCBA Best New Beef Products 2000, and it will be one of the CAB products supplied to the 2002 Winter Olympics. Dies says the initial research and development on that product led to becoming a CAB licensee. "We were trying to create a quality product out of an end meat that was not easy to work with.

The *Certified Angus Beef* consistency helps."

By creating more value for the chuck, Dies says W&G "creates more value for the whole CAB carcass. Without a value-added processor like W&G, that product may fall back to commodity ground beef. We use 100% slow-cooked CAB chuck, no fillers," he adds.

During the recent holiday season, Dies convinced retailers and foodservice distributors to maintain stocking levels because "people are really busy planning for one or two big meals. Our product allows them to still have quality, convenient meals while they are on the go."

What producers need most

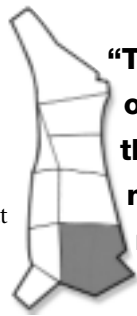
Peak demand for the barbecue chuck product always will be in the summer, which is when chuck is traditionally priced lowest. "We buy chuck during those warm months, and that helps add value to end meats when producers need it most," Dies says.

He expects a new wave of requests from retailers this year when the packages will carry the 2002 Olympics logo. In addition, two new products are available from W&G: a shredded CAB product without sauce, which has been popular with Mexican-style restaurants; and a CAB smoked brisket, which has seen a lot of interest from Texas and Colorado foodservice distributors.

Carcass utilization within CAB is about double that of most branded beef programs, Polzer and Stine say. When that higher utilization is combined with the brand's 65% share of all USDA-certified carcasses, Polzer figures CAB accounts for about 80% of all branded beef sales.

"It's important to keep utilizing more so that packers can continue to get more for the CAB product and, in turn, continue to pay more for live animals," Stine says. "If a producer is going to gear his program toward a long-term target, the brand with the highest carcass utilization overall represents the most stable target. As we increase brand exposure, we drive demand so that retailers can ask for premiums that are returned to packers for boxed beef prices and to producers for live-animal prices.

"Any time we can merchandise more of that animal, we increase brand recognition," Stine says. "The opportunity to move more end cuts is increasingly important as we see cattle numbers slip a little bit." In fact, CAB owes its 15% growth in 2000 almost entirely to greater carcass utilization because the number of carcasses accepted was steady with 1999, he explains.



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