

A Cattle-Fax study proves Certified Angus Beef Program's positive economic impact on Angus bull demand and cattle prices, and reinforces what breeders already know...

ANGUS are WORTH MORE

Since its inception in 1978, the Certified Angus Beef (CAB) Program has been an innovative leader in marketing high-quality, value-added beef. The program has proven the adage, "beef is not beef," by defining a set of product standards which allow meat packers, purveyors and retailers to differentiate between a premium product and other commodity-type beef.

For many, annual sales totals for Certified Angus Beef™ product provide sufficient evidence of the success of the program. (For an overview, see CAB Program's special report in the November 1994 *Angus Journal*.)

After first coming on line in late 1978, annual Certified Angus Beef product sales have grown to total more than 173 million pounds in 1994. Sales have grown at an average annual rate of more than 21 percent during the last five years.

To date, however, no analysis has been conducted to determine the extent to which the CAB Program has met its primary goal — to increase demand for registered Angus bulls. The American Angus Association commissioned Cattle-Fax, a beef marketing and economic analysis service, located in Englewood, Colo., to document this important information.

The purpose of the Cattle-Fax project, conducted in the summer of 1994, was to provide an analysis of the CAB Program's track record to date. The project's objectives were two-fold: 1. To the degree possible, quantify the CAB Program's impact on registered Angus bull prices; 2. Determine to what degree an increase in the certification rate of cattle meeting CAB Program live-cattle requirements affects the demand for and price of registered Angus bulls.

What Cattle-Fax found was positive, to say the least. The CAB Program has been successful in improving demand for Angus bulls. In fact, Certified Angus Beef product sales in 1993 contributed between \$290.86 and \$354.79 per head to average Angus bull prices. It added \$434 to the average value of Angus bulls in 1994.

Economic factors may mask any improvements in 1995 and coming years as the beef industry goes through a cyclical period of expansion. Specifically, lower calf prices and negative returns to cow-calf producers will have a dampening effect on bull demand, Cattle-Fax notes.

CAB PROGRAM & ANGUS GENETICS IMPACT

— Contributed \$434 per head to the average value of registered Angus bulls during 1994.

— Contributed \$2.81 per cwt. premium on Angus-based steer calves.

— Contributed \$965 in premiums on progeny produced by the average Angus bull.

Nevertheless, growth in Certified Angus Beef product sales will continue to make a positive contribution to Angus bull prices, as larger fed-slaughter totals and higher CAB Program acceptance rates point to increasing supplies of Certified Angus Beef product through 1997.

Based on current trends, Cattle-Fax projections point to peak Certified Angus Beef product sales in 1997, after which both sales growth and program contribution to Angus bull prices could potentially decline. Growth in sales to date have been largely tied to growth in CAB Program licensed packers' processing capacity. That capacity is expected to level off in 1995.

Increasing acceptance rate on Angus and black-hided cattle will be paramount to securing the future growth in Certified Angus Beef product sale and to further enhancing demand for registered Angus bulls.

This Cattle-Fax project was followed by a second study this past winter, at the request of the Association Board of Directors. Its objective was to quantify the CAB Program and the general Angus advantage impact on the commercial beef marketplace.

Both studies will provide a basis for which future program performance can be estimated, making it possible to identify program challenges and deficiencies, as well as finding workable solutions.

Angus Premiums in Commercial Marketplace

It's no secret in the beef business that black-hided cattle sell at a premium. The premium may not be evident on every day in every market across the country. Still, most producers would testify that Angus-based and/or black hided cattle will typically "top the market."

Little research has been done to quantify premium amount on various classes of Angus-influenced cattle relative to non-black cattle. The second Cattle-Fax study was conducted to attempt to answer these questions, and also to determine how premiums on Angus-based commercial cattle stack up against the average premium paid for an Angus bull.

To quantify these premiums, 115 auction markets, order buyers and others closely involved in the commercial cattle trade

were interviewed by Cattle-Fax analysts. Results of the survey are summarized in Table 1.

Table 1 Premiums on Angus-based Commercial Cattle Class

Class	Premium
500 lb. steer calves (\$/cwt)	\$2.81
750 lb. feeder steers (\$/cwt)	\$1.56
Replacement females (\$/hd)	\$51
Total progeny*	\$965

* Total premiums on 74 progeny produced by the average bull during his useful life.

A regional breakdown of premiums paid for Angus-based calves, feeder cattle and replacement heifers is summarized in Table 2 below.

As the results show, premiums on Angus-based cattle are significant. If quantified on the entire progeny produced by one bull, the value of the premium reflects a 2.6:1 return on investment, when compared to the average premium paid on an Angus bull in 1993.

Although many variables affect prices paid for feeder cattle and replacement females, the premium market targeted by the CAB Program has provided a major boost in demand for black-hided cattle throughout the beef marketing chain, many of which are not Angus-based.

By comparing total premium that may potentially be recognized through the sale of progeny from any one Angus bull to the typical premium paid for that bull, managers can conduct their own cost/benefit analysis to determine the final payoff for using registered Angus bulls.

Table 2 Average Angus-based Cattle Premiums*

	Calves (500 lb.) -----(\$/cwt)-----	Feeders (750 lb.) -----	Replacement Females (\$/hd)
1994 Angus-Based Premium*			
U.S. Average	\$2.81	\$1.56	\$51
Northwest	\$1.31	\$1.25	\$57
Southwest	\$1.89	\$1.67	\$59
Northern Plains	\$3.34	\$1.63	\$49
Southern Plains	\$2.43	\$1.35	\$37
Midwest	\$3.08	\$1.69	\$59
East	\$3.27	\$1.68	\$61
1991 Angus-Based Premium*			
U.S. Average	\$1.95	\$1.02	\$30
Northwest	\$0.72	\$0.66	\$20
Southwest	\$0.50	\$0.50	\$20
Northern Plains	\$2.32	\$1.03	\$33
Southern Plains	\$2.11	\$1.17	\$32
Midwest	\$2.07	\$1.06	\$29
East	\$1.97	\$0.98	\$30

* Compared to non-black cattle of a similar weight, condition and type.

Factors Influencing Bull Prices

Many factors influence purebred bull prices, according to Cattle-Fax economist Bret Fox. Some of these factors are measurable, and their impact on bull prices can be objectively determined.

For the most part, these variables are economic in nature. Other breed-specific measures are more subjective and, although they may be key demand influencers for one breed when compared to another, are more difficult to quantify.

Producer profitability at the cow-calf level, calf prices, price premiums on calves and feeder cattle relative to fed cattle, herd inventory levels, and grain prices all affect the demand for, and price of, purebred bulls.

In some years, weather also has a major influence. While a direct measure of weather is difficult to obtain, Mother Nature's influence is assumed to be embedded in the price and production variables listed above and in the following table.

Factors Influencing Bull Prices

Variable	Relationship to Bull \$
Cow-calf profitability	+
Calf prices	+
Calf premiums vs. fed cattle	+
Grain prices	-
Cattle inventories	-
Interest rates	-

These variables all affect bull buying decisions — some more directly than others. Extended losses sustained by cow-calf producers after a period of industry expansion will result in reduced demand for bulls in general. As expansion enthusiasm gives way to cow herd liquidation, both the need for bulls and producer ability to purchase additional bulls are reduced.

Other demand measures more directly linked to Angus bulls are much more difficult to quantify, and are often not readily comparable across breeds. An example is expected progeny difference (EPD) records. These performance measures are useful in determining value when shopping for bulls within the same breed, but don't provide a sound mean of comparison when evaluating an Angus bull relative to a bull of another breed.

Differences in producer perceptions of quality, as well as long-standing breed tastes and preferences, make it difficult to use other breed-specific measurements, such as changes in annual bull registrations, in an objective analysis, say Cattle-Fax analysts.

It's important to recognize that genetic improvement within the Angus breed over time has value in itself. A portion of the value assigned to the CAB Program should instead be attributed to this genetic improvement. This was taken into consideration when Cattle-Fax calculated the final estimate in its study for the American Angus Association.

