

Value-Based Marketing

The Certified Angus Beef Program Perspective.

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Much has been said about the success of Certified Angus Beef, not only by the American Angus Association, its members and the staff of the Certified Angus Beef Program, but also by meat industry professionals throughout the U.S. and abroad. They are finding the phrase, "Certified Angus Beef" synonymous with the finest, most consistent quality beef product money can buy.

It is undoubtedly noteworthy that a beef breed organization can be successful identifying, selecting and marketing the end product of its production programs through the many channels of beef processing and marketing. The uncompromising dedication and commitment by licensed CAB processors, distributors and end users to maintain the integrity and quality of the CAB trademark and product have resulted in the successful marketing of more than 200 million pounds of Certified Angus Beef to consumers through more than 6,000 of the finest restaurants and nearly 700 of the most quality-conscious retail food stores in the United States and 19 foreign countries.

These numbers are staggering when one compares them to those of the many other branded beef programs frequently in the news. However, when compared to the total pounds of beef marketed in the United States, the numbers are considerably less significant. The total number of carcasses rolled as CAB accounts for only approximately 1.4 percent of the total fed cattle marketed in the U.S.

A recent survey of commercial cattle producers from across the country revealed that of the cattle operations represented by the respondents, approximately 57 percent have Angus and Angus crossbred cows comprising the majority of their herds.

Assuming this, probably only about 15-20 percent of the offspring from those Angus and Angus crossbred cows are presently identified as eligible for CAB through the 27 packers licensed by the American Angus Association. Of that small percentage, only approximately 1 out of 4 of those identified, eligible cattle will possess the quality to meet the rigid CAB carcass specifications.

As a result, neither the American Angus Association nor Certified Angus Beef packing plants can guarantee a premium price to the producers of that product, due primarily to the unpredictability and inconsistency of the cattle marketed through the channels.

With the identified cattle attaining only an average 25 percent acceptance rate, packers are justifiably reluctant to pay a blanket premium on groups of cattle based on hide color alone. Nonetheless, premiums are sometimes paid to producers who have cattle which consistently perform above average in CAB carcass acceptance.

For instance, Gene Krab, owner of Krab, Inc., a diversified farm, cow-calf and feedlot operation in Paxton, Neb., along the South Platte River, has found rewards in the CAB Program. Replacement heifers are home-raised, and the only cattle purchased are bulls, primarily purebred Angus. Black is the dominant color in the Krab feedlot. All the steers are put through the feedlot. Krab then sorts cattle when they are ready to achieve optimum feed efficiency.

The consistency of the Krab cattle has made cattle buyers seeking CAB cattle very competitive, according to Krab. He says, "Certified Angus Beef has been pretty good for us. We've received premium prices for some of the cattle that have ended up CAB."

Krab also believes he has to keep working at improving the final product. "Our goal is to produce the kind of product that the buyers really want most," he adds. "We try to use all of the tools available to produce a product with value."

According to information obtained through the Certified Angus Beef Carcass Data Program, Krab's yearling steers and heifers consistently achieve more than 50 percent CAB acceptance. Krab believes strongly in EPD's when selecting bulls and pays close attention to efficiency and productivity of his cow herd. "We don't baby our cattle here," he says. "They have to be productive on what little feed they get, or they don't make it."

Another diversified operation that has found success in obtaining premiums for CAB cattle is Hartman Angus Ranch, just outside Pueblo, Colo.

Orval, Dorothy and Greg Hartman have a registered Angus cowherd and small custom feedlot, as well as a farming operation. The Hartmans feed mostly Angus cattle, with CAB specifications as their target.

Dorothy Hartman says the Certified Angus Beef Program is successful for the packers. "We believe that if we can produce the kind of cattle that meet those specifications consistently, our cattle should be more valuable to the packers."

She adds, "we believe in working with the cattle buyers and feeding cattle to meet their needs, and our feed cost to the customers are extremely competitive. The only problem CAB buyers have found with our operation is that we don't have more cattle to sell them."

Many differences exist in production and marketing practices between packers, both CAB and non-Certified Angus Beef plants. Some licensed CAB plants kill small numbers of cattle at a higher cost per head than competing packers who are sometimes larger and perhaps more efficient. Both CAB and non-CAB plants are aggressive in efforts to buy black or predominantly black bided cattle because of the recognized ability of Angus cattle to enhance quality grade.

Packers, both CAB and non-CAB, have different specifications outlined for their marketing programs, which determine their willingness to pay extra for particular groups of cattle.

For instance, some packers and processors are able to better market heifers

than steers, lightweight carcasses than heavy carcasses, low yield grades vs. high quality grades, etc. Sometimes a non-CAB packer may be more aggressive than a licensed CAB packer to purchase a group of predominantly black hided cattle based on specifications other than hide color. Occasionally a non-CAB packer may have less inventory preceding slaughter than a CAB packer in a particular buying area. Therefore, the short-bought packer is forced to pay higher prices to maintain its daily kill requirement.

Freight is also a disadvantage to CAB packers buying in particular areas such as California, Washington and Oregon.

Still another point is that some CAB packers are carcass suppliers only and do not have the same marketing advantages available to them as do packers/fabricators marketing CAB primal and sub-primal cuts in boxes. Therefore, these 'kill-only' plants are limited in their ability to bid higher prices on live cattle due to the limited premiums they, in turn, receive on carcasses sold to fabrication plants.

Austin Paul, who manages the cattle feeding operations for Kenosha Beef International, a licensed CAB packer and fabricator in Hebron, Ill., sees these problems more clearly.

"Some of our customers who sell us feeder cattle think that if cattle are black hided they're automatically Certified Angus Beef," Paul says. "However, when these black cattle go on feed we don't know if they will be 5 percent or 50 percent CAB, and at that point we can't justify paying a premium for them."

"Nonetheless," he adds, if we could find producers who could prove their cattle consistently perform above average in CAB acceptance and still feed profitably, they would be worth premium prices because I could market that consistency to the packing plant."

Kenosha Beef International offers producers complete feedlot performance and carcass information on cattle they feed and offers incentives for cattle meeting CAB carcass specifications in their formula pricing agreements.

Another feedlot who has found success in getting added-value prices as a result of the CAB Program is Decatur County Feed Yard in Oberlin, Kan., which is in the northwest corner of Kansas.

Decatur County Feed Yard has a capacity of 21,000 in one yard and capacity for 6,000 more in nearby Menlo, Kan. Their location is in an accessible market-

ing area for seven licensed CAB plants, and they market 60 to 70 percent of all their cattle to CAB plants.

"Cattle buyers for CAB plants are aggressive to purchase our black hided cattle," says Cal Siegfried, marketing manager for Decatur County Feed Yard. "Because of the recent expansion of the CAB Program to other nearby packing plants, we often have CAB packers competing with each other for our black cattle. That competition has resulted in our receiving added-value prices for many of our black hided cattle."

"Some people think just because cattle have black hides they'll make CAB."

Siegfried also points out that just because you have black cattle doesn't necessarily warrant a premium. "Packers, CAB or otherwise, are looking for cattle 1,100 to 1,200 pounds, a high percentage of yield grade 2's and 3's and no 4's. By the same token, when we place cattle into the feedlot, we want fast growing cattle that will be able to convert 6 pounds of feed on a dry matter basis to 1 pound of gain.

"Some Angus and Angus-cross cattle can perform as well or better than any other breed or breed-cross in the feedlot and still produce a high percentage of CAB quality carcasses on the rail for the packer, but not all black-hided cattle have that ability. Today's producer needs to be informed of the total performance capabilities of their cattle through the feedlot as well as the packing plant. The best way to accomplish this is to retain ownership in the feedyard and see for themselves the benefits of the added value of CAB."

Siegfried says the future success with CAB for Decatur County Feed Yard will be marketing a consistent, finished product to the CAB packers and increasing the number of Angus customers in the feedyard.

"We believe strongly in the future of CAB," he says. By working with Angus producers, we can meet the growing demand for CAB by producing predictable,

finished cattle that are profitable for CAB packers as well as our Angus customers."

Another successful custom feed-yard and strong supporter of the CAB Program is Supreme Feeders in Liberal, Kan., located in southwestern Kansas. Supreme Feeders has a one-time capacity of 60,000 head and markets approximately 50 percent of its cattle to licensed CAB packing plants in Kansas.

"The buyers for the CAB plants that stop here regularly are strong bidders and treat us pretty well on pens of the right kind of mostly black hided cattle," says John Oringderf general manager for Supreme Feeders.

However, he does confess that sometimes a non-CAB plant occasionally can offer more for a pen of predominantly black hided cattle. "It all depends on how many cattle they have on inventory and their head cattle buyer's opinion on where the market is heading," he says.

Oringderf also notes that some misunderstandings are created because many of their customers don't understand the specifications required for predominantly black cattle to qualify for CAB.

"Some people think just because cattle have black hides they'll make CAB," he says. "We've seen certain Angus herds make 50 to 60 percent CAB, while others make only 10 to 20 percent with the same time on feed. Marbling is what prevents most of the cattle from not qualifying, and we know that marbling is highly heritable. We find as many or more differences exist within breeds of cattle, Angus or otherwise, as exist between breeds. Producers need to be informed of the carcass quality of their calves so they can select seedstock for these factors."

He adds, "CAB packers have to be able to provide their beef buying customers-retailers and food service distributors-a consistent product if they expect to receive premium prices. We can't expect premium prices for our cattle unless we can provide a similar consistency."

Many branded beef programs promise added-value premiums to producers before the carcasses are marketed and often find that supply may outdistance demand, creating disappointments and broken promises. Most of the success claimed by these marketers is in small, highly restricted regions.

The Certified Angus Beef Program office believes that it is easier to pull cattle into an established, proven, true, added-value market driven by demand rather than push cattle into an unstable market

driven by supply and promises of demand

Although the CAB Program is the largest, most successful specification beef marketing program in existence today, it is still in its infancy, continuing to work toward attaining its original goal to increase the value of Angus seedstock.

CAB Program plans call for continuing expansion of its production base by licensing more packers and processors with efficient, top-level quality control programs, that will be able to consistently produce CAB carcasses to fill the increasing demand for product. Through projects like supply development, coupled with the breed improvement programs of the American Angus Association, CAB hopes to encourage continued increases in the use of registered Angus bulls in the commercial cattle production sector as well as increase the percentage of predominantly black cattle whose carcasses meet CAB product specifications.

The fastest growth and quickest benefits to producers however, will come from within breeding programs. If producers can effectively produce fast growing cattle that meet marbling requirements for CAB consistently and at young ages, and, perhaps most importantly, can document this performance, the benefits of added-value prices will filter through the channels more quickly.

The future growth and success of the CAB Program is dependent upon the ability of producers to effectively increase the number of predominantly blackhided cattle meeting the rigid carcass specifications for CAB-modest or higher marbling, "A" maturity and yield grade 3 or leaner.

The CAB Program realizes that some producers and feeders do not have the advantages of marketing cattle effectively through CAB channels at this time because of their location. However, the CAB Program is continuing to grow at record pace, and this growth is at least partly responsible for the tremendous demand for Angus cattle throughout the commercial cattle industry.

The future will be bright for CAB marketers as well as registered and commercial Angus cattle producers if we all work together.

For more information about Certified Angus Beef and the programs available to producers of predominantly black cattle, please contact: John Stowell, Director, Supply Development, Certified Angus Beef Program, 6094 Vivian Street, Arvada, Colo. 80004, PH: (303) 420-0936.

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