

# Rebound

*Beef comes back from a series of unfortunate events.*

*by Morgan Marley Boecker, Certified Angus Beef LLC*

Shocks to the beef industry were all part of 2020's "unprecedented" theme, but how the market responded was less surprising. There was nothing for it but to make new plans and keep going, said a RaboResearch analyst.

Dustin Aherin, animal protein vice president and analyst for Rabo AgriFinance, a RaboBank subsidiary, addressed those ideas at the virtual 2020 Feeding Quality Forum.

Cattle, labor, physical capital and technology make up the beef production equation, he said. When any of those fall out of balance, it's communicated through prices.

The 2019 Tyson packing plant fire and COVID-19 both threw the equation off, but with different effects. Where the Holcomb, Kan., fire caused some destruction at one plant, the coronavirus pandemic brought changes in human health, plant adaptations and new technology across the entire supply chain.

"Looking at what happened



here in 2020 with an extreme increase in fed-cattle supplies, and given the backlog," Aherin said, "the collapse in prices really wasn't unexpected."

## The what and why

The escalating disasters highlighted the tightening capacity at packing plants, especially in the last five years. When there aren't enough resources to turn cattle into beef, "it's tough to put a high value on those animals," Aherin said.

That's *what* happened, but *why* requires a deeper understanding of the financial environment.

The pandemic created a "risk-off environment," he said, causing investors to pull cash out of the market and put it into assets perceived as safer.

"In such a high-risk environment," Aherin said, "it's really difficult to motivate buying in the live-cattle futures side of the market."

Studies show small changes in beef tonnage result in large price changes, he said. The temporary plant shutdowns, labor challenges and the rapid shift from foodservice to retail caused major changes in beef availability.

As painful as it was for cattle producers, Aherin said the prices and magnitude of changes were in line with research models.

## Leaving the gate open

What comes next? When so many decisions in 2020 were reactions to repeated rib punches, it's hard to catch your breath long enough to make plans. But agriculture often deals with heavy blows. Aherin recalled the global financial crisis of 2008 took seven quarters for foodservice recovery.

After a COVID-19 vaccine helps

119

tame the pandemic next year, “we’re expecting closer to eight to 10 quarters,” he said, “and the trend of change will continue” in foodservice.

“We need to be proactive and willing to adapt,” Aherin said. “Consumer preferences, supply chain practices, food safety, quality and convenience are going to be even more important than ever.”

Opportunities are wide open for the beef industry, but it’s going to take buy-in and support from cattlemen to create a resilient, diverse and flexible supply chain.

How do we let technology disrupt established procedures to increase efficiencies, particularly at existing packing plants?

“The big talk is to have more robotic fabrication and cutting, but there’s more near-term potential

in data collection and monitoring,” Aherin said.

Improvements in those areas across all production sectors will help identify the best genetics and practices, he said.


Traceability is another benefit. Disease outbreaks not only threaten people, but as African Swine Fever (ASF) has illustrated, also pose high risks to livestock and the food supply.

“We have to be able to track, trace and control any sort of disease outbreak before it becomes a major inhibitor to the marketplace,” Aherin said.

As consumers grow more curious about food production, source and environmental effects, it may pay to enhance documentation. Throughout the pandemic, branded beef led sales. That’s still rooted

in quality, but more management attributes are emerging. Producers may not have to change much, just add verification to meet consumer demand and gain market access.

Aherin foresees a future where “a product doesn’t have access to food companies, distributors, restaurants and retailers if they don’t meet the standards that those businesses have set for their supply chains.”

“We have to be really focused on the consumer and ready to innovate and be creative,” Aherin said. Because when history is making jumps and bounds, “we don’t want to be caught flat-footed.” 

*Editor’s note: Morgan Marley Boecker is a producer communications specialist for Certified Angus Beef LLC.*

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# Hindsight for the Future

*CattleFax CEO shares positive outlook for beef industry at 2020 Feeding Quality Forum.*

*by Abbie Burnett, Certified Angus Beef LLC*

The blessing and curse of perspective is not having it until a moment passes. Looking back on the last 40 years shows us more than we can see here and now.

“I think we really have to have an appreciation for where we’ve come from,” said Randy Blach, CattleFax CEO, at this year’s virtual Feeding Quality Forum. “It’s not been a straight line.”

Cattle inventory topped 132 million head in 1975, but it wasn’t until 2000 the fed-cattle harvest

reached its record 30.2 million, and that was with a long decline to 10 million fewer beef cows.

In the 1980s, 12% of U.S. farmers and ranchers went out of business, and the “war on fat” in the 1990s nearly eradicated a poorly informed cattle industry, Blach said. Between 1998 and 2000, almost 40% of carcasses graded Select.

“If you go back to the quality audits at that time period, one out of four steaks was a disappointment,” he said. “No wonder consumers were

walking away from our product. They didn’t like it.”

While a new focus on quality emerged in the early 2000s, genetics, growing drought and mistakes of the past kept up pressure to liquidate. From 2000 to 2015, annual fed harvest numbers declined by 7 million head to close some packing plants and limit harvest capacity going forward.

The seeds of that early move to boost quality finally sprouted after the drought, blooming with record-

*Continued on page 80*

high Choice and Prime grades (see Table 1).

“We’ve just taken out the long-term downtrend in numbers,” Blach said. “I believe the reason we’ve done that is because we’re an industry that is now focused on doing the right thing, producing the highest-quality product that we can and meeting the changing demands of our consumers.”

As the U.S. herd decreased, productivity per head greatly increased and finally added premium quality. The market analyst looks for some liquidation due to drought in the near term, but overall numbers should only ebb and flow instead of crash and rise. Stabilization has come to the industry.

The retail sector provides a case study, Blach said. From 1980 to 1998, beef demand was cut by more than half, but since then, it has risen by 14 points to 61 on 1980’s baseline of 100. There’s room for more, but much value has already been added.

“That growth from the demand low has been worth anywhere from \$225 to about \$280 a head,” he said.

Demand is well-established for today’s higher-quality beef, but without an increase in the bottleneck of harvest capacity, Blach sees herd numbers flattening.

With the current balance in supply and demand, “we increase harvest capacity, or we decrease the number of animals that are moving through the system,” he said. “This will be a situation that ebbs and flows and will start to balance back over the course of the next several years.”

On the global stage, the United States is the top beef and poultry producer, and ranks third in pork, dominating meat trade overall.

The reason?

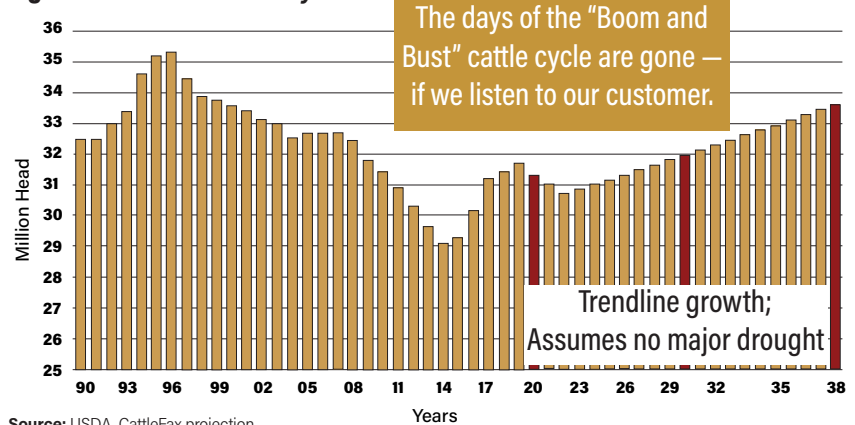
“Because the lion’s share is a high-

**Table 1: 15 years of progress, 2005-2019**

Grade and CAB	2005	2019	Change	% Change
Choice and Prime	55.7%	80.2%	24.5%	44%
Upper 2/3 Choice and Prime	16.6%	32.0%	15.4%	93%
CAB Acceptance Rate	15.6%	35.1%	19.5%	125%
<b>Million Head</b>				
Choice and Prime	14.81	20.95	6.14	41%
Upper 2/3 Choice and Prime	4.41	8.36	3.95	90%

Source: USDA, CattleFax.

**Fig. 1: U.S. beef cow inventory**



Source: USDA, CattleFax projection.

quality fed-beef product so we have more yield per animal,” Blach shared.

In 1990, beef exports were a very small percentage of U.S. production. Today it’s 19 billion pounds (lb.), or 18% of total meat exports. Blach sees that growing to as much as 150 billion lb. of beef exported by 2040, or 50 billion more than this year.


That sunny projection comes with challenging considerations.

“Are we prepared to continue to make the strides, some of the same hard decisions we made 15 to 20 years ago, focused on quality? Are we going to be willing to do that as we move forward where we can increase our global market share and presence? To have a traceable product? Be source-verified?” he asked.

Instead of \$350 per head, Blach said beef exports could be worth close to \$500 per head by 2030.

“We’ve seen these premiums stay strong all the way through here because more and more consumers, once they taste the good stuff, they want to stay with it, don’t they? So this has been a quality movement,” he said. “Now the opportunity is to layer some of those other attributes onto this to move the value equation moving forward as we move forward into this next decade.”

Real-time perspective isn’t really a thing, but the progress in the latter half of the last 40 years says a lot about where the beef business is headed in the future.

You can find recordings from the event at <https://www.cabcattle.com/fqf-2020/>. 

*Editor’s note: Abbie Burnett is a producer communications specialist for CAB.*

# Opportunity for Beef Progress Continues

*A record number joins virtual Certified Angus Beef conference.*

*by Crystal Meier, Certified Angus Beef LLC*

More than 1,100 people from 27 countries gathered online for the *Certified Angus Beef*® (CAB®) Annual Conference late September, a record attendance for the event, to explore the possibilities. Ranchers, meat packers, distributors, grocers and restaurateurs together in a virtual room made the supply chain feel smaller, each seeking go-to-market strategies to deliver high-quality beef to consumers.

“As we look at the COVID-19 impact, it hasn’t necessarily changed consumer demand for quality beef,” said John Stika, CAB president. “It just changed dramatically where and how they look to access it.”

Even with a pandemic recession about, the brand will end 2020 with more than a billion pounds sold.

“You have to be amazed, when you think of what we’ve gone through, that demand would stay this strong,” said Randy Blach, CEO of CattleFax. “And we’ve done it basically with one hand tied behind our backs.”

When public health ordinances shifted diners from foodservice to retail, it created one positive unintended consequence: consumers got more comfortable in the kitchen.

This creates retail opportunity, said Chris Dubois, senior vice president of protein for data analysis firm IRI. He encouraged marketers to marry tools with sales to keep beef at the top of the grocery list. CAB offers Roast Perfect, an app that shares how-tos,

recipes and cooking inspiration.

Dubois said online food sales grew 50%-60% this year, while meat e-commerce doubled.

“The retailers, processors and packers who get e-commerce right are going to have more success than those who ignore the trend,” he said. “This is where you’re really going to see the separation in the next three years.”

International business is slowly gaining momentum again, after an optimistic start to 2020.

“We feel like the fundamental demand for U.S. beef has remained quite strong in our key markets,” said Joe Schuele, vice president of communications for the U.S. Meat Export Federation (USMEF). “For the global meat trade, especially high-end products to reach full potential, we need to return to normal economic activity.”

The brand continues to grow relationships, and highlighted marketing tools such as French and Japanese versions of its logo and a new website for Spanish-speaking consumers, *CertifiedAngusBeef.lat*.

The CAB Prime brand extension offers another growth opportunity.

“Is there enough high-quality Prime in the marketplace to build a business around?” Blach asked. “The resounding answer is yes.”

Prime beef production used to make up only 2%-3% of beef, but now makes up nearly 10% of the annual

supply from fed cattle, or 2.6 million Prime carcasses.

In the past two decades, beef’s market share of consumer spending grew, now making up nearly half of the dollars spent on proteins.

Building on that momentum, CAB launched its consumer loyalty program in February. Steakholder Rewards™ invites customers to interact with the brand and earn rewards for beef purchases.

While the foodservice division works harder than ever to sell much less, CAB facilitated discussions on keeping quality while cutting costs, offering ideas such as live training, menu ideation and using value-added products.

“When I look at what the people are doing to drive their businesses forward during difficult times ... it’s really exciting,” Stika says.

Remaining relevant in an ever-changing marketplace requires adaptation. Attendees learned about updates to the brand specifications and sustainability initiatives.

“This brand was started to create value for everyone that produces and touches it through the production and merchandising chain,” Stika said. “As I look at where we’re at today, I think we’ve been able to re-center on the things that are important to ensuring value moving forward for our partners.” 



*Editor's note: Crystal Meier is senior corporate communications manager for CAB.*