

Why USPB Pays a \$4.50 Premium

BY STEVE SUTHER

Although Farmland National has its own brand of “Angus,” its producer cooperative members aim higher.



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Sixteen years ago National Beef Packing Corp. became the first of the “Big Four” packers to sign on as a licensee of the Certified Angus Beef (CAB) Program. It was just one of many innovative steps for this quality-oriented processor, farmer-owned through Farmland Industries and U.S. Premium Beef (USPB) cooperatives.

It would be five years before other major packers would begin to license plants to produce *Certified Angus Beef*[™] product, leading to the hyperbolic growth curve seen in the 1990s. With this head start in recognizing the advantage of sourcing high-quality Angus cattle, Farmland National Beef (FNB) also saw that branding could add value, at least when it came to the best Angus-type carcasses.

As the CAB Program flourished, FNB increased its focus on high-quality Angus cattle. The growing need for sourcing better Angus genetics was part of the perfect fit

when the newly-formed USPB cooperative agreed to buy up to half interest in FNB two years ago. Today the USPB marketing grid, with a \$4.50/hundredweight (cwt.) premium, pays more for *Certified Angus Beef* carcasses than any other published grid in the beef industry.

Steve Hunt, USPB CEO, says, “There’s no question that CAB[®] has created awareness and value for a branded beef product. What we’re doing, at USPB and FNB, is building upon that value. Being a CAB-licensed processor since 1983, National has a shared awareness of the value of [branding] and has been a leader in developing other branded products within our company, such as our Farmland Black Angus Beef product.”

There remains a point of contention as to whether low-Choice products have the consistency to improve consumer demand, but FNB’s product holds the line above Select grade, where research shows unsatisfactory eating experiences are far more common.

Pointing out that the CAB Program mission is to “sell more Angus bulls,” Hunt

says FNB’s effort also helps. “Certainly there is a real and a perceived value in the Angus breed [among consumers]. We’re convinced there is a real value, but the CAB [Program] efforts in marketing have created an intrinsic value as well. Right or wrong, Angus represents quality in the eyes of the consumer. We felt there was value in products produced from Angus cattle beyond the specifications of CAB product. We sell a tremendous amount of product as Prime, and the majority of those are Angus, too, with their propensity to marble.”

USPB has been careful “not to limit what breeds our producers can use,” Hunt says. “We’ve been careful to encourage them to learn what they are producing, no matter what it is. We know there is as much variance within breeds as between breeds. Having said that, I think our grid clearly indicates there is additional value in the black Angus animals that come into our program.”

The *Certified Angus Beef* premium is the

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only dollar signal carrying that message, but it speaks volumes. “We have a pull-through system,” Hunt notes. “If our consumer demands more Prime or CAB, we are going to pass that signal on to you, the producer. It’s enough of a profit center for our company that it is worth paying that extra premium, and we’re still making money at that level.

“With ownership in the packing company, USPB has a dual motive: We want to absolutely provide the economic incentive to bring more supply in. And we want to allow profits to grow in the company we own,” Hunt says. “It’s a balancing act, but as producer-owners, we provide direct input as to how important it is to provide incentives out there to produce those animals.”

In the interest of trying to include a wide variety of genetics within the Angus breed, windows of acceptability have been proposed that include Select-grade carcasses as part of a target. Hunt says Angus breeders should aim higher. “Our Angus seedstock members don’t aim at a Farmland Black Angus target. They aim for Prime without going heavy or YG 4. That’s where the biggest premium [\$9/cwt.] is. The next target is *Certified Angus Beef* acceptance.”

It’s not always easy being a high-premium, high-quality packer, Hunt says. “We have a challenge in that the markets tend to fluctuate at the end-user level. There are times when we lose money in our

company by paying so much on the grid. But we have a goal of sending the right long-term signal to producers. Despite those dips in market demand, we know that long term we are better off to send a consistent signal that we want Prime, we want CAB, we want cattle that will fit our labels.”

When the quality-beef market rallied strong in late summer, FNB didn’t have to scramble to get more *Certified Angus Beef* and Prime product. “Some grids fluctuate a lot more, drop off and come back. But ours is a long-term commitment. Our producers will be here not just one year, but year after year. We send the signal that we want them to breed for CAB and Prime and do all that they can to remove outliers. Obviously that is not a short-term process.”

Being a multibreed, mainstream quality-beef market, USPB has used something of a “shotgun approach” at first to get data back to producers. Many started with pen data, but an increasing number of USPB members are moving up to individual identification (ID), some through a new electronic-ID system. Eventually, the cooperative aims to affect the source of all its cattle. A measure of its early success is that premiums paid to members doubled from the first year to the second year of operation.

“That has come through improved grid prices, utilizing carcass data and better management of cattle,” Hunt says.

“I know we provide more revenue to our producers with that approach, but we need

to move farther out now in fine-tuning the source of our cattle, to identify management practices that we’ve learned — with the right genetics — will further increase the earnings potential. We’ve done some work comparing Angus sire groups that have gone through our program, and [we] saw variance of as much as \$100 between one group and the next.”

Hunt says that kind of member-initiated research will help define the expected progeny differences (EPDs) for which Angus producers should look that will push carcass premiums still higher.

“The genetics are out there today to produce Prime, YG 1 and YG 2 carcasses. There are lines out there that are goof-proof; whether you feed them 110 days or 150 days, they will still hit the target,” says Hunt. “It’s exciting to see that we have identified genetics, tracked through our program, that hit the target every time and also reproduce.”

More than a dozen Angus breeders are officially seedstock suppliers for FNB programs and/or USPB members. Among those are “some of the best carcass EPDs in the industry,” Hunt notes. “It’s a natural selection process. As people become involved, they see there is a reward for those genetics. As an industry, as we see there is more demand for quality; there is more demand for those genetics that will hit a home run.”

Just breeding to Angus bulls is not enough. Even breeding to registered bulls from well-known breeders is not enough, Hunt says. He relates a tale of financial woe when a USPB member bought Angus steers at a special calf sale expecting excellence but ending with only 26% Choice.

It turned out that the calf-fed group had a lot of sickness upon arrival at the feedlot, but the telling factor — after the fact — was the *Angus Sire Evaluation Report*. It showed that the sire of those calves was among the lowest in the breed in carcass EPDs.

“They didn’t have a chance to grade,” Hunt says. “They had the genetics to produce and perform well in the feedlot, but not to grade well. Now that member doesn’t buy anything without checking carcass EPDs of the feeder steers, and it’s working.”

The USPB grid has been stable for more than a year, and Hunt thinks it is still right on target. “We don’t take our grid lightly; a lot of contemplation and research — several months’ worth — goes into any change. We

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— Steve Hunt

are always analyzing our grid, gathering input and asking questions. They always start with, ‘What does our customer want? What will it take to get that?’ And then, ‘What kind of premiums will it take?’ We are extremely happy with our grid today, one of the best, if not the best in the industry. Our members [950 in 28 states] certainly understand it well, and we have worked hard to explain it.”

The last change, in November 1998, allowed heavy carcasses, 950-975 lb., without a discount. The move met with an equal amount of applause and criticism, Hunt now says, explaining the motives. “That discount, at \$15 per hundredweight, is substantial enough that if you miss the target, you could end up below cash. We were losing a lot of 900-pound-carcass cattle to our competitors that were going CAB, but they didn’t want to risk our program when the cash buyers were lining up for them.”

Utilization in the plant is another trade-off that came into play: The lighter the carcass, the less utilization for that shackle. It costs as much to fabricate a 550-lb. carcass as it does to fabricate a 975-lb. carcass.

“We balance what our customer wants and what they are willing to pay vs. the cost. Right now, heavies are not an issue for our buyers,” Hunt says, admitting that post-harvest sorting helps direct the bigger ribeyes to the appropriate end users.

With its steady and high premiums for quality, does the USPB grid pay enough for red-meat yield?

“It’s another balancing act,” Hunt says. “We take pride in that a large percentage of our volume goes to labeled and value-added products — relative to sales, more than any other packer in the industry. We do look at the counterbalance.

“The yield-grade factors offset feeding to higher grade in general. Too much emphasis on yield grade lowers the amount of higher-quality-grade cattle in our system.” At \$3/cwt. for YG 1s and \$1.50/cwt.

for YG 2s with no discounts, Hunt admits, “It’s fairly lenient, but with that percentage in high quality, it was a trade-off we were willing to make.”

USPB’s benchmarks in 1999 included a 24% *Certified Angus Beef* acceptance rate among its black-hided cattle, more than 63% Choice, no YG 5s, only about 2% YG 4s, with more than 60% YG 1s and 2s.

About half of all cattle in USPB’s system last year were black-hided.

Long-term, the CAB Program must find ways to work within the reality of a multibrand Angus market. Hunt admits Farmland Black Angus is being built on the foundation of the CAB Program’s success, and he says producers need avenues to market Angus cattle that just miss CAB’s higher target. If anything, such an array gives producers more confidence to aim for CAB and Prime targets, he adds.

On the other hand, Hunt sees the problem that consumer dissatisfaction with “Angus” products can hurt everyone in the breed if branding includes lower quality grades. If there is a Standard grade flank steak labeled Angus, “I don’t think there’s anything you can do about it, and that has to be of some concern.”

For the most part, however, Hunt says Angus producers need to keep their focus on improving the product, making it more consistent and convenient. “Pork and poultry are the real competition.”

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Got yield and quality? Bring 'em on!

There are Angus cattle that can do it all in terms of grade and yield, and Ken Conway wants them to sell through the Angus GeneNet carcass-merit-pricing formula he recently negotiated with Monfort plants in Kansas, Texas, Colorado and Nebraska.

“The main improvement is increasing the *Certified Angus Beef*™ acceptance premium to \$4 per hundredweight (cwt.) for the eight months from May through December, keeping it at \$3 the other four months,” says Conway, manager of the program.

The change makes the Angus GeneNet formula grid stand out as one that rewards excellence in both yield grade and quality. For example, cattle that achieve both USDA Yield Grade (YG) 1 cutability and *Certified Angus Beef* acceptance during the eight-month higher-premium period earn a \$9/cwt. combined premium.

The negotiated increase in the *Certified Angus Beef* premium, Conway says, illustrates the increasing demand for that branded product.

“The CAB® target isn’t the whole answer for most Angus breeders,” Conway says. “But it should be part of the target for every Angus producer.”

“The Angus GeneNet grid sends a constructive message to producers that there are increasing rewards for improving both CAB acceptance rates and yield grade,” says Certified Angus Beef (CAB) Program Assistant Executive Director Larry Corah. “Cutability will become more and more important in determining value for high-quality carcasses.”