Demand for the Brand

New index points to profit potential.

by ***Miranda Reiman***

The *Certified Angus Beef*® (CAB®) brand has increased the number of pounds sold every year since 2005, but does that really mean demand for the product is soaring?

Economists said there was not enough information to tell, so a team of Kansas State University (K-State) researchers analyzed additional data and found that the answer is, "Yes."

Ted Schroeder and master's degree candidate Lance Zimmerman created a CAB demand index to help compare year-to-year numbers and the impact on demand.

"There are a lot of components that make identifying and especially measuring demand changes over time complex," Schroeder says. "Demand is a combination of both a per capita quantity and an inflation-adjusted price, and the two must be combined together to determine demand changes over time."

The methodology and results are explained in their research paper, "Defining and Quantifying *Certified Angus Beef* Brand Consumer Demand."

"The demand for CAB has outpaced Choice product since 2002," the paper says. "Demand for CAB increased 56% over the eight years, and Choice demand increased 20%."

The year 2010 marked the highest CAB demand index on record at 154.

Reality of recovery

In both cases, the biggest increase was from 2009 to 2010 (see Fig. 1), which highlights a familiar story. The recent economic recession hurt the foodservice business, but recovery helped spur wholesale beef sales.

"Much of the 2010 demand growth had to do with export market opportunity," Schroeder says, but also a return of restaurant visitors in 2010.

"We were a victim on the foodservice side and beneficiary on the retail side," says Mark Polzer, CAB vice president of business development. In 2009, CAB's foodservice business was down almost 5.5% and retail was up 9%, but 2010 brought good news in both sectors: foodservice increased 10% and retail by 20%.

"Even during the economic downturn, food was still very cheap in the U.S., and those who tend to consume higher-quality products — beef in particular — tend to be those with higher income," Schroeder says. "The customer base CAB targets didn't realize as much downturn as the rest of the economy did. Contrast that with generic meat products that don't have that brand loyalty: They saw people substituting away from the higher-priced to lower-priced products and even switching to lower-price protein sources in general."

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CAB sales increased by more than 100 million pounds (lb.) compared to 2009, and the brand's cutout value increased more than $5 per hundredweight (cwt.) in deflated U.S. dollars. The paper notes, "There was not another year in the model where both per-capita consumption and real cutout prices increased relative to the previous year."

Schroeder says he would capsule that as "phenomenal growth," but cautions that isn't realistic year-over-year.

"If in 2011 the index were to go down a little bit, I don't think it says that CAB is losing its equity and value, because we had such a major increase in 2010," he says.

Demand for Choice beef and demand for CAB products are closely related, but certainly not identical.

"The commodity product seemed to be more dramatically affected by negative macroeconomic factors, such as trade barriers and overall economic health," the research states. "It is also worth noting that demand for Choice product appears slower to rebound during times of recovery than CAB demand."

Oftentimes all "high-quality beef" is lumped together as Choice and higher. This economic analysis and model represent the first scholarly work to note "Choice vs. CAB" is not a direct comparison because factors like brand loyalty and consumer preference enter the picture.

Global good

The index showed that strong international sales years (2003 and 2010) were also the two highest years for wholesale brand demand. International increases remain strong, on track to break the 2003 record this year as the category claims more than 10% of the brand's total sales.

"Future dramatic growth will depend more and more on our international side," Polzer says. "But there are so many variables outside of the cattle industry that affect international demand."

Everything from free-trade agreements to disasters on the other side of the world play a role, and because several potential markets are not open to CAB product sales, the demand index may actually be slightly higher than reported.

"We're seeing projections for large global population growth, but we know there are some places in the world where *Certified Angus Beef* is not consumed," Schroeder says.

Ranch rewards

Regardless of where it's sold, these increasing numbers bode well for producers. It can be hard to make a direct connection between farm-level prices and retail beef price stickers, but earlier research from Montana State University looked at that very correlation.

Economist John Marsh studied total U.S. beef demand from 1976 to 1999 and noted a 66% decline. That translated to a 40% reduction in fed-cattle prices, and feeder-calf prices dropped 48% during that period.

The recent K-State research says, "Improving demand at the consumer and wholesale level can have an equally dramatic, positive influence on farm-level prices and production, and these effects can be illustrated by the success of CAB and the Angus breed."

That's backed by numbers: CAB premiums in the $5-per-cwt. range, video sale Angus breed premiums of $6.55 and 63% Angus-influence in the 2010 U.S. steer and heifer harvest mix.

"Any beef product line that has growing demand is likely to benefit the entire industry," Schroeder says. "There may be some substitution of Choice to CAB, but additional substitution is coming from other proteins and competing products around the world. By having CAB growth, you're enhancing domestic producers' opportunities to profit."

Continued increases of 5% to 10%, he says, would be very strong growth that represents value for farmers and ranchers.

"To fulfill that need, premiums for that product will flow back down from the processor to the packers, back to the feedlot and ultimately to the cow-calf producer who is influencing those genetic selections," Schroeder says.

Although not 100% of the premiums are passed through the system, a portion is still significant.

"If feeders see that they can get $4- or $5-per-hundredweight premiums from CAB-qualifying carcasses, they'll very quickly bid that back into their purchases for calves that they think will have a high likelihood of attaining that," Schroeder says.

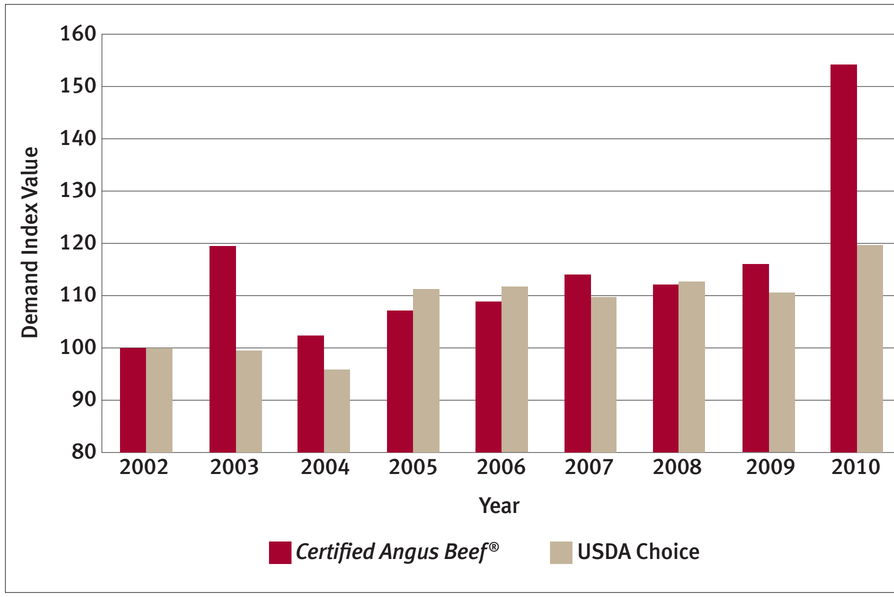
These bonuses may seem watered down in times of overall high prices, but added value is still added value.

"At some point cattle prices will have to back off, but if you've got high-quality genetics in your herd you are going to be better positioned to take advantage of that premium then," Polzer says.

Every segment of the industry has a role in maintaining loyal consumers.

"Beef demand woes historically have surrounded quality issues with beef products," Schroeder says, recalling the 1980s and 1990s. "We needed to start offering customers a more predictable eating experience or we were going to see continually declining demand.

Fig. 1: Consumer demand index values for USDA Choice and CAB® brand product



"Higher quality and branded products do that or they don't last," he says. "If they don't deliver consistently they're out of the game."

A 33-year track record and escalating sales keep Polzer optimistic.

"It's rather amazing the resilience we've had with the brand," he says. "We had the worst foodservice recession we've had in over 35 years and the highest beef prices we've ever seen. Couple that with relatively cheap chicken and pork prices and it all comes down to that consumer being satisfied."

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