

Tightening the Belt

Association tightens belt, raises fees to position members for growth.

by *Shauna Rose Hermel*

For years, the American Angus Association has budgeted conservatively, budgeting for slower growth in each successive year. And for years, the Board's greatest financial challenge has been to explain why projected revenues outpaced expectations.

Call it Murphy's Law, the perfect storm of economic challenges or what have you, but in June, the Association's Finance Committee had to address a projected budget deficit of \$2.3 million for fiscal year (FY) 2010.

"While we continue to enjoy strong demand for Angus seedstock, and consumer demand for *Certified Angus Beef*[®] (CAB[®]) will set new records

this year, the Association is faced with the challenges of streamlining operations, cutting costs and developing new sources of revenue," explained Association CEO Bryce Schumann in an Aug. 6 post to the Association web site, www.angus.org. "Earlier this year, we began a careful evaluation of all Association programs, looking for areas where we could reduce costs and enhance revenue while maintaining the same level of quality service our members have come to expect."

What got us here

July marked 10 months completed in the Association's current fiscal year. At this time

last year the Association's income statement featured three line items contributing more than a million dollars of revenue to the bottom line — registrations, \$3.86 million; artificial insemination (AI) certificates, \$1.35 million; and transfers, \$1.16 million. These three factors contributed 65% of the Association's revenue.

Members are feeling the economic crunch on a personal and business level, compounded by additional expenses required to test and cull for arthrogryposis multiplex (AM) and neuropathic hydrocephalus (NH). AM and NH testing also adds an expense to the Association in labor, computer and custome support

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Table 1: American Angus Association registrations and transfers, by year

Year	No registered	% change	No. transfers	% change	No. new regular memberships	% change
1981	209,416	-18.7%	141,403	-5.5%	2,326	-56.5%
1982	201,680	-3.7%	128,587	-9.1%	1,970	-15.3%
1983	195,267	-3.2%	119,764	-6.9%	2,225	12.9%
1984	174,539	-10.6%	106,790	-10.8%	2,081	-6.5%
1985	156,150	-10.5%	102,503	-4.0%	1,955	-6.1%
1986	133,475	-14.5%	81,557	-20.4%	1,503	-23.1%
1987	141,239	5.8%	87,563	7.4%	1,504	0.1%
1988	143,520	1.6%	86,357	-1.4%	1,612	7.2%
1989	156,697	9.2%	94,628	9.6%	1,730	7.3%
1990	159,036	1.5%	98,395	4.0%	1,823	5.4%
1991	166,769	4.9%	99,478	1.1%	1,812	-0.6%
1992	175,414	5.2%	108,377	8.9%	2,142	18.2%
1993	193,401	10.3%	116,312	7.3%	2,445	14.1%
1994	214,261	10.8%	127,276	9.4%	2,600	6.3%
1995	224,710	4.9%	130,780	2.8%	2,712	4.3%
1996	220,586	-1.8%	128,371	-1.8%	2,589	-4.5%
1997	239,476	8.6%	142,956	11.4%	2,615	1.0%
1998	252,969	5.6%	151,721	6.1%	2,663	1.8%
1999	260,907	3.1%	151,390	-0.2%	2,711	1.8%
2000	271,222	4.0%	169,232	11.8%	3,012	11.1%
2001	271,215	0.0%	159,029	-6.0%	2,865	-4.9%
2002	281,965	4.0%	164,603	3.5%	2,951	3.0%
2003	281,734	-0.1%	165,963	0.8%	2,915	-1.2%
2004	298,770	6.0%	181,759	9.5%	3,266	12.0%
2005	324,266	8.5%	192,633	6.0%	3,402	4.2%
2006	347,572	7.2%	206,121	7.0%	3,558	4.6%
2007	347,755	0.1%	204,918	-0.6%	3,159	-11.2%
2008	333,766	-4.0%	208,533	1.8%	2,512	-20.5%
2009 ^a	280,000	-16.0%				
2010 ^b	252,000	-10.0%				

^aEstimated with 10 of 12 months of fiscal year complete.

^bBudgeted with 10% decrease in registrations.

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expenses with no added revenue to offset it. At press time, 89,872 head had been tested and reported to the Association for AM; 24,087 for NH.

Taking into account the time required to conduct testing and the number of cattle testing positive as carriers of AM and/or NH (20,572 AMC; 5,980 NHC), delayed and eliminated registrations, transfers and AI certificates were inevitable. To date this fiscal year, registration revenue is down 13.2%, transfer fees are down 13.1%, and AI certificate income is down 17.3%.

In FY 2008, the Association registered 333,766 animals, a 4% decrease from the year prior, but one of only three decreases since registrations bottomed out at 133,475 in 1986 (see Table 1). A projected 16% decrease in registrations this year would put the Association at roughly 280,000 registrations for FY 2009.

In past years, the Association's investment income might have compensated for this loss of revenue, but due to the economic recession, for FY 2008 and 2009 the Association's investment income has been a negative instead of a positive — and for reasons having nothing to do with the cattle business.

"In past years, investment revenue has been a solid contributor to the financial resources for programs of the Association," Rich Wilson, chief financial officer (CFO), explains. "This revenue has allowed us to develop and enhance our programs without increasing fees to the membership."

In the last 18 years, he adds, only three have generated sizable losses due to investments, with two of those three being 2008 and 2009.

While the forecast for investment revenue next year looks a little brighter, the Association is forecasting another 10% decrease in registrations for FY 2010 as members continue to test for AM and NH and to tighten their belts at home.

All in all, it's an abrupt change in the financial picture of the Association that has required considerable attention by the Board and staff during the last 12 months.

Cost reduction

Already feeling the economic pinch and forecasting reduced registrations due to the genetic factors, staff provided an overview of cost-saving measures being taken and recommended additional cuts at the February Board of Directors meeting in Saint Joseph. Association President and Chairman of the Board Jay King, Rock Falls, Ill., appointed a task force to meet with

staff prior to the June Board meeting to re-evaluate the financial situation.

Meeting in May, the task force put all Association departments under scrutiny to see where expenses could be reduced.

"During the budgeting process, the wisdom of prior Boards to not spend all of the investment revenue was obvious," says Joe Hampton, treasurer and task force chairman. "Their foresight allowed this Board to address the current economic challenge on three fronts — cut expenses, seek additional revenue and utilize reserves. The future of the Association would be different if only one of these options were perused."

Coming into the June Board Meeting, the Association had cut costs in the current 2009 budget an estimated \$800,000. Most of the reductions — 67% or \$555,600 — were obtained with cuts in personnel expenses, including direct compensation, unfilled vacated positions, bonuses not paid and mandatory reductions in overtime and part-time pay.



Association departments were instructed to reduce expenditures, with a goal of eliminating 10% of expenses originally budgeted for FY 2009. Implementation of that directive has resulted in actual cost savings of nearly 20%.

The lower supply cost accompanying a lower volume of business combined with cost-cutting measures — such as conducting the June Board Meeting in Saint Joseph, as opposed to a remote location — comprise some of the reductions.

Continuing that mind-set into the upcoming fiscal year, cost reduction efforts eliminating an additional \$600,000 (for a total of \$1.4 million) were accepted in the June Board review of the preliminary FY 2010 budget. That \$1.4 million equates to about 12% of the Association's original FY 2009 budget. The final FY 2010 budget will be proposed and discussed at the Board Meeting in Saint Joseph, Mo., Sept. 9-11.

Salaries for the Association and Angus Productions Inc. (API) have been frozen for FY 2010; and employees will assume financial responsibility for a greater share in the cost

Most recent previous fee increases

Membership dues	2001
Transfer fees	1982
AI certificate fees	1981
Registration fees	1980

of employee benefits, which have long been a hallmark of the Association as an employer.

An early retirement option was offered to 24 employees within the Association and API. To date, six employees had accepted the offer, which will be funded out of reserves in FY 2009. Employees were given until Aug. 31 to accept the option, so a final count was not available at press time.

While the Board approved use of reserves to fund the deficit for FY 2009, the expense reductions outlined so far fall short of the \$2.3 million budget shortfall predicted for 2010.

Recognizing that different programs and services meet the needs of different producers and wanting to follow up on the discussions of several subcommittees evaluating individual programs, King appointed a committee, later dubbed the alternative income committee. The committee was charged with evaluating revenue sources that would contribute toward the goal of generating \$1.1 million within the 2010 budget. That committee met four times.

Fee increases

In a special meeting conducted by conference call July 28, the committee proposed to the full Board seven of the 12 options it had discussed in committee. Four of the seven items were noted as able to affect the FY 2010 budget. Each was voted on individually and adopted.

(1) Increase the membership fee \$50, raising the annual membership fee to \$80. The increase is scheduled to take effect Jan. 1, 2010.

(2) Require registration of an animal prior to the availability of providing EPDs. This policy will take effect Dec. 12 to correspond with the running of the Spring 2010 National Cattle Evaluation (NCE).

(3) Recommend the Angus Genetics Inc.[®] (AGI) Board establish an operating margin for DNA trait tests for genomic-enhanced EPDs.

(4) Offer an individual life membership option. The lifetime membership of \$1,500 will be offered as of Jan. 1, 2010.

Three options were offered for future consideration:

- ▶ Impose a handling fee for issuing paper registrations. (Not in effect.)
- ▶ Pursue service agreements for data and information processing. (Not in effect.)
- ▶ Consider a combined presence on the web for the Association and its entities as source of revenue. (Not in effect.)

Of the four measures adopted, membership dues were evaluated as the most likely to contribute to balancing the 2010 budget.

“Even at \$80, membership to the American Angus Association is undervalued,” Hampton says. “Any one of a host of services — member log-on, national promotion or support staff in the office or in the field, for example — could in and of itself more than justify the \$80 expense.”

“For about what it would cost to take your family out for a steak dinner, the American Angus Association is yours,” King adds, referring to the programs, services and support of the Association. “And while everyone enjoys a night out with the family, you have ownership in the Association 24-7, 365 days a year.”

The new rate is more comparable to other associations that can't provide as complete a genetic evaluation or menu of services. In comparison, for membership and a subscription to its breed publication, the American Hereford Association charges \$115; the American Simmental Association, \$100; and the North American Limousin Foundation, \$130. The Angus membership fee of \$80 combined with a \$50 subscription to the *Angus Journal* will cost \$130.

“The new membership dues will ensure the continuation of the Association's 126-year tradition of quality of service, information, outreach and leadership,” Schumann says. The funds will ensure continuation of programs and services such as the recent computer system upgrade, activities such as the National Junior Angus Show (NJAS) and the Annual Convention of delegates, field services and support staff.

“The new membership dues will also ensure the Association's investment in an updated, innovative and more aggressive public relations, advertising and marketing program,” Schumann continues. “And, it helps to secure a continued commitment to providing cattle producers across America with the most valuable research and performance information available in the industry today.”



Q&A

Why did the Association raise membership dues now?

The decision to increase membership dues was based on a strong belief that it is imperative that the Association continue to invest in programs that add value to both registered and commercial Angus cattle. History shows that companies and organizations emerge from difficult economic times in a much stronger position precisely because they stepped up their efforts to promote and add value to their products, rather than retreating. The same will be true for the Angus breed.

The recent economic downturn is an enormous opportunity for Angus to continue to expand market share, because no other breed in North America can invest in promotion, advertising and research at the same level that Angus can.

What is being done to preserve the financial strength of the Association?

The Association has taken a three-part effort to maintain its financial strength, including focusing on short-term efforts that will still provide valuable programs and services for members. These three areas include (1) reducing costs substantially, (2) utilizing reserves, and (3) raising additional funds.

AngusSource® has posted losses during the last two fiscal years. Why not cut that program?

The purpose of AngusSource is to add value to commercial Angus calves sired by registered Angus bulls through source, age and genetic verification. AngusSource is an investment in the marketplace to create demand for Angus genetics.

Like other Association programs, such as advertising, public relations, genetic evaluation, activities and junior programs, AngusSource is not intended to be a profit generator for the Association. Instead, it is one of several important programs and services that members rely on to add value to the Angus breed and to create demand for Angus genetics.

What value does AngusSource create for Angus cattle?

It adds value to Angus genetics because AngusSource-enrolled calves must be sired by registered Angus bulls. The reputation of AngusSource in the marketplace, and the information it provides, creates premiums for producers. Studies, like the one recently published by the Iowa State University Iowa Beef Center on third-

party certification, proves that the more consistent and verified information producers can provide, the greater chance they have at receiving premiums.

Why did the Association also pass a new policy requiring that all animals be registered before breeders can receive their EPDs?

The new policy levels the playing field for all members, ensuring all breeders invest equally in Association cattle evaluation programs to receive expected progeny differences (EPDs) on their cattle.

What is the value of requiring that all animals must be registered before breeders can access EPDs?

The new policy enhances and protects the value of the registration certificate for all members. An American Angus Association registration certificate documents all things a pedigree stands for — including performance information and other important genetic information for an animal.

How does this new policy change the way I get performance information on my calves?

The new policy only changes the time at which you receive EPDs for animals that you've submitted herd records on to the Association.

Prior to registering an animal, what information will I receive on my cattle?

After submitting your performance information, you will continue to receive adjusted measurements and ratios in the same way that you have in the past.

The adjusted weights for non-registered animals will still be included in the proper contemporary groups for genetic evaluation purposes.

What if I don't intend to register an animal? Is it still important for me to submit all of my production data?

Yes. Submitting all of your herd records to the Association adds value to your animals — regardless of your intent to register them. Remember, you will still receive adjusted measurements and ratios on non-registered animals, and that information adds value to your herd in the marketplace. The data on a calf will still influence the EPDs on the animal's sire and dam in the National Cattle Evaluation (NCE).

— Excerpts from Q&A provided by the Association at www.angus.org.