



Too Much Quality?

John F. Stika, Ph.D.

Certified Angus Beef LLC

Wooster, OH





NON-PROFIT

owned by the family farmers and ranchers
of the American Angus Association®

19,000+
licensed packers, processors,
distributors, retailers and restaurants in

50 COUNTRIES

155 TEAM MEMBERS

solely focused on promoting this one brand

OVER 1.2 BILLION

pounds sold globally each year



5.5 MILLION

head certified annually

\$75 MILLION

paid to cattlemen each year



Marbling & USDA Quality Grades

USDA
PRIME



Slightly Abundant

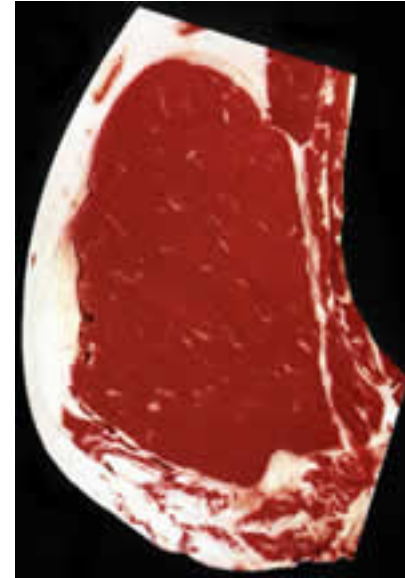
USDA
CHOICE



Moderate

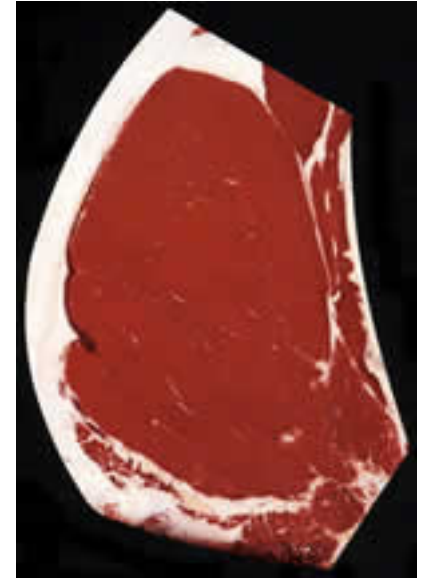


Modest



Small

USDA
SELECT



Slight

Reproductions courtesy of the NCBA and U. S. Department of Agriculture, @NLSMB.



What is the IDEAL Quality Grade Mix?

	National Beef Quality Audit						
USDA Quality Grade	1991	1995	2000	2005	2011	2016	2019*
% Prime	7	7	6		5	5	8.6
% Upper 2/3 Choice	24	21	27		31	35	32.5
% Low Choice	40	34	32		33	35	39.3
% Select	29	38	35		31	25	16.3
% Standard/No Roll	0	0	0		0	0	3.3



NATIONAL BEEF
QUALITY AUDIT



Funded by the Beef Checkoff

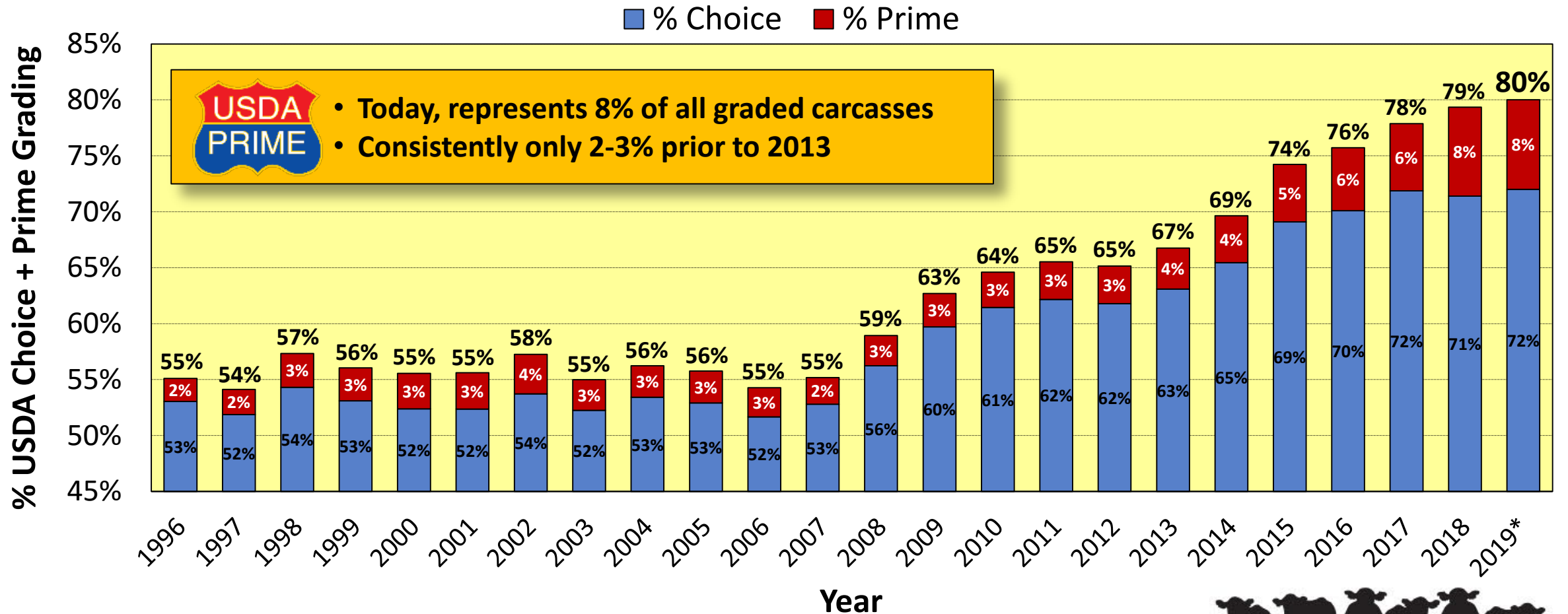
Source: National Beef Quality Audits
USDA AMS

*Data through week beginning 7/22/19



Dramatic Improvement In Quality Grade

USDA Choice + Prime Grading Percentage Trend

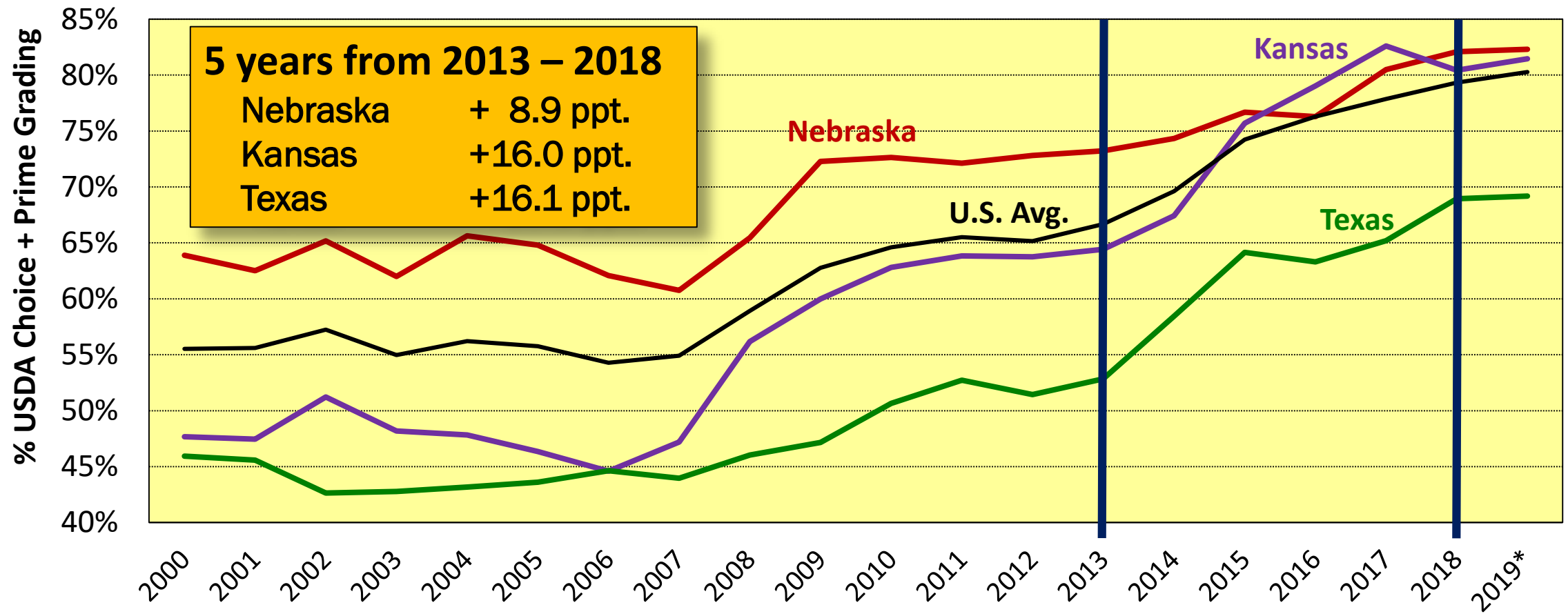


Source: U.S. Department of Agriculture (USDA)

*Data through week beginning 7/15/19



% USDA Choice & Prime Quality Grade by State

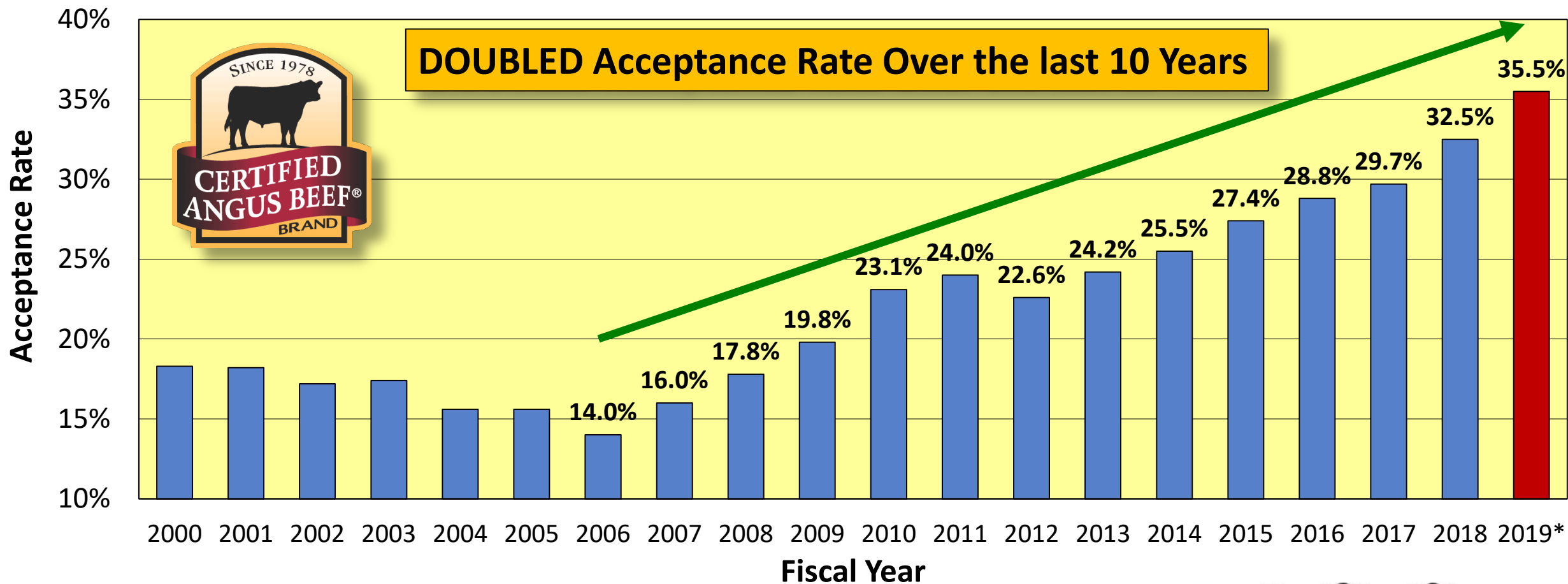


Source: U.S. Department of Agriculture (USDA)

*Data through week beginning 7/15/19



Acceptance Rate Annual Trend

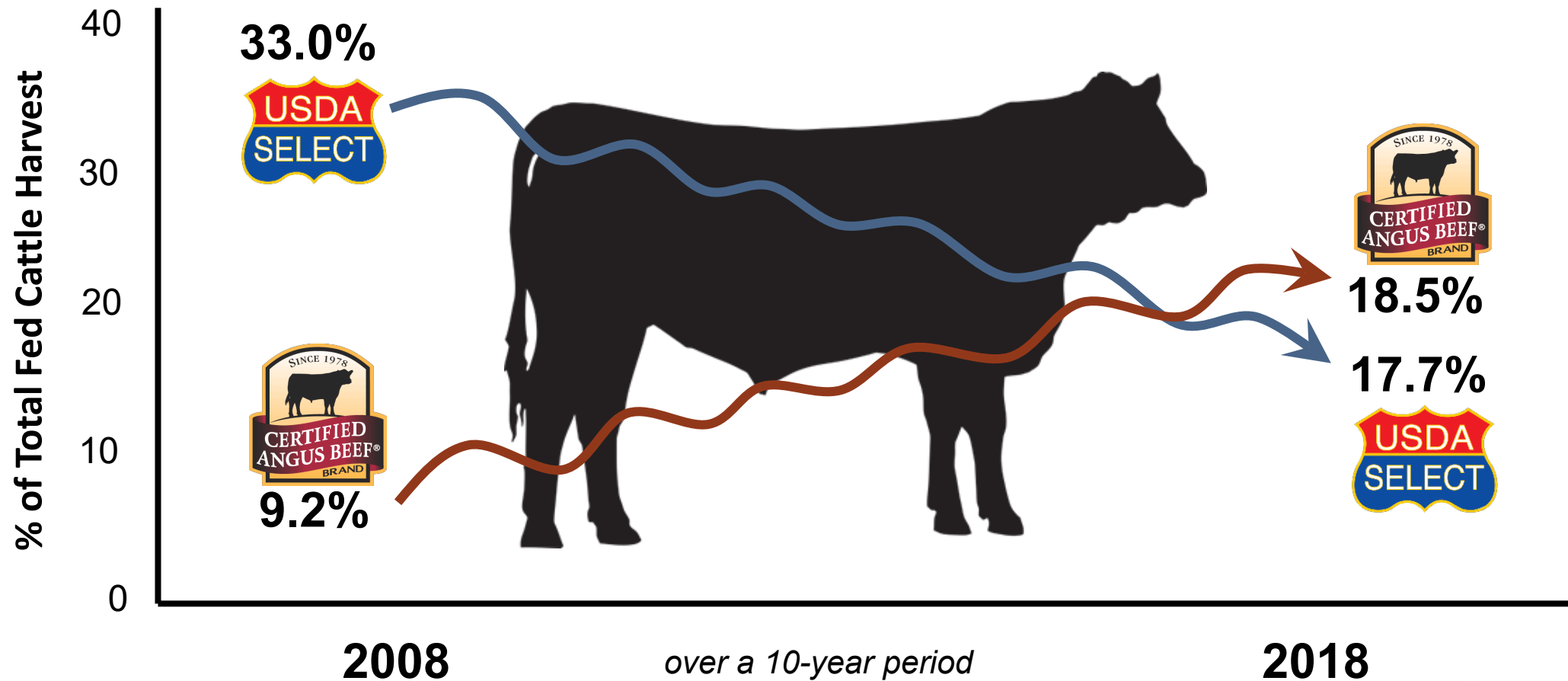


Source: Certified Angus Beef LLC (2007 Yield Grade change, 2014 HCW change)

*Projected



An Industry Shift From Commodity Towards Quality



%Select = USDA Reported

%CAB® = Total CAB® Certified Head Count/US Fed Steer and Heifer Harvest



Quality Grade Improvement = Major Production Shift

Average <u>Weekly</u> Production By Grade* (Million lbs.)				
	2010	2019*	Unit Change	% Change
Prime	^{3%} 13.0	^{8%} 35.9	+22.9	+176%
Premium Choice	51.1	97.8	+46.7	+91%
All Choice	^{61%} 254.3	^{72%} 300.4	+46.1	+18%
Select	124.4	68.3	-56.1	-45%
Other	22.4	13.9	-8.5	-38%

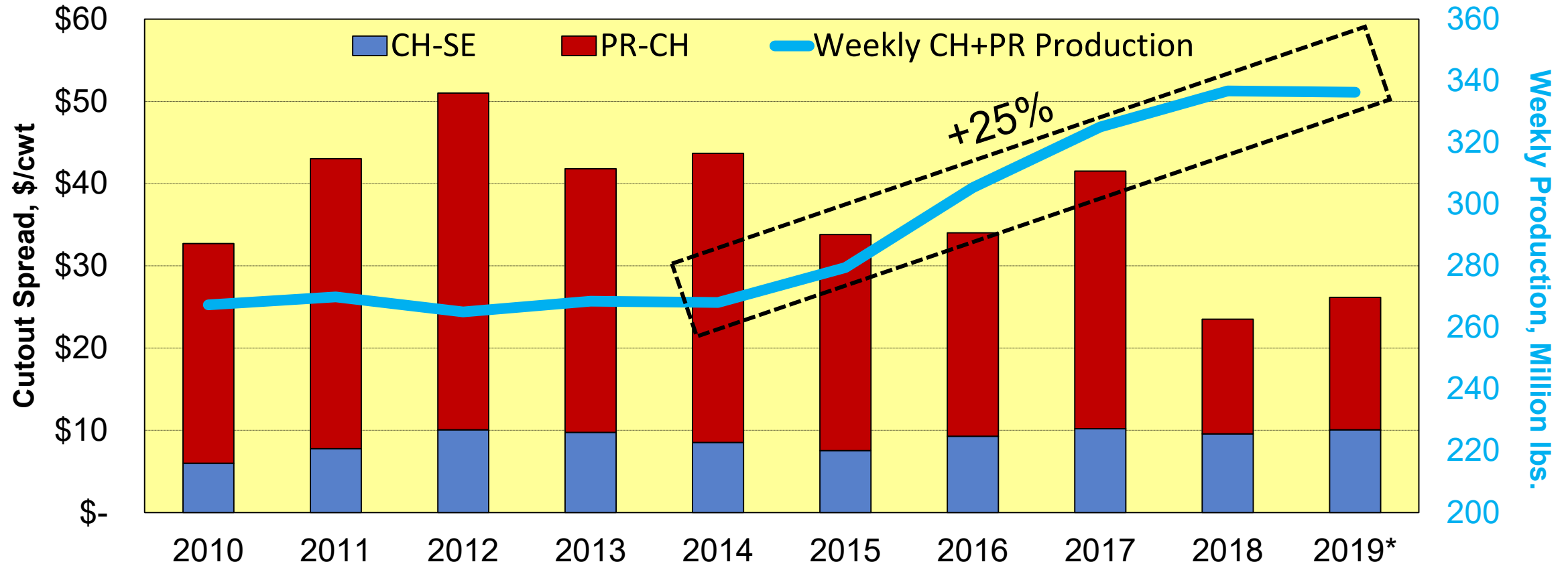
*Estimation based on fed steer and heifer harvested head multiplied by average fed hot carcass weight multiplied by QG distribution
Source: USDA AMS

So, how have prices adjusted?

*Data through week beginning 7/15/19



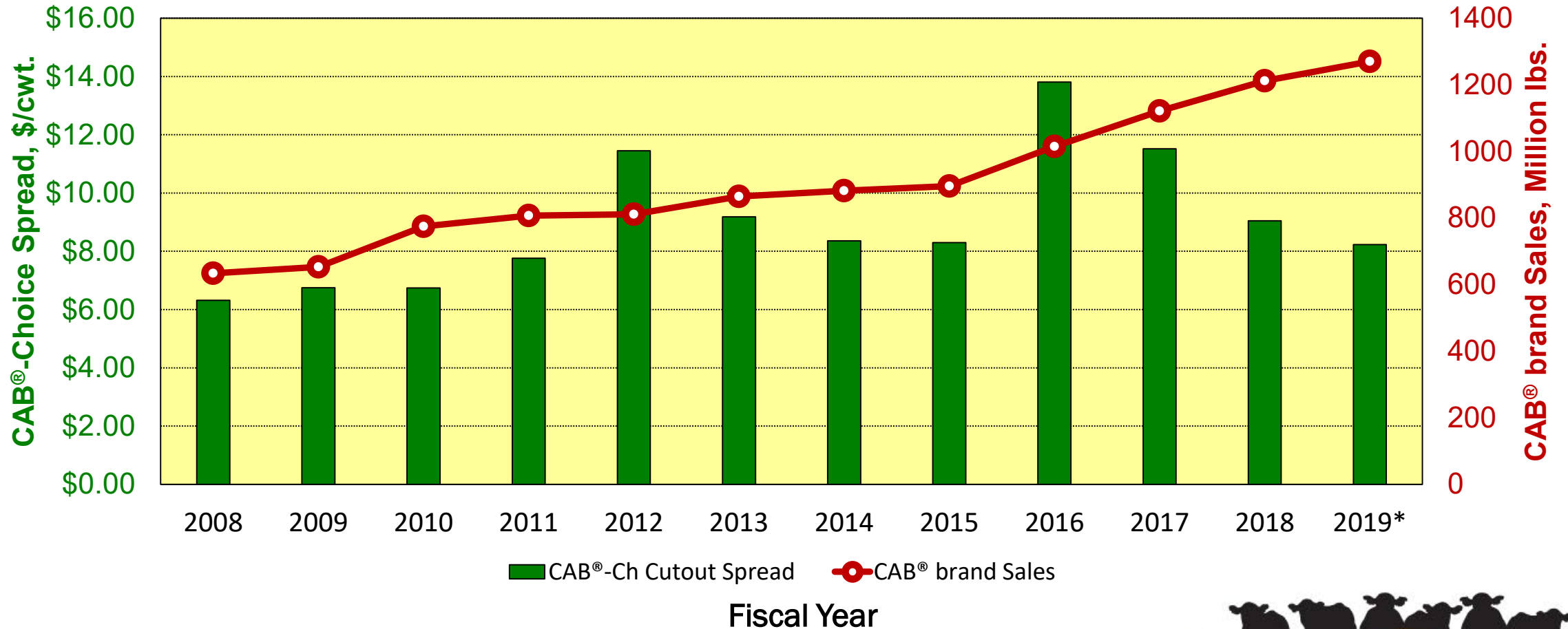
Cutout Spreads Relative to USDA Choice + Prime Production



*Data through week beginning 7/15/19



With An Economic Signal For More

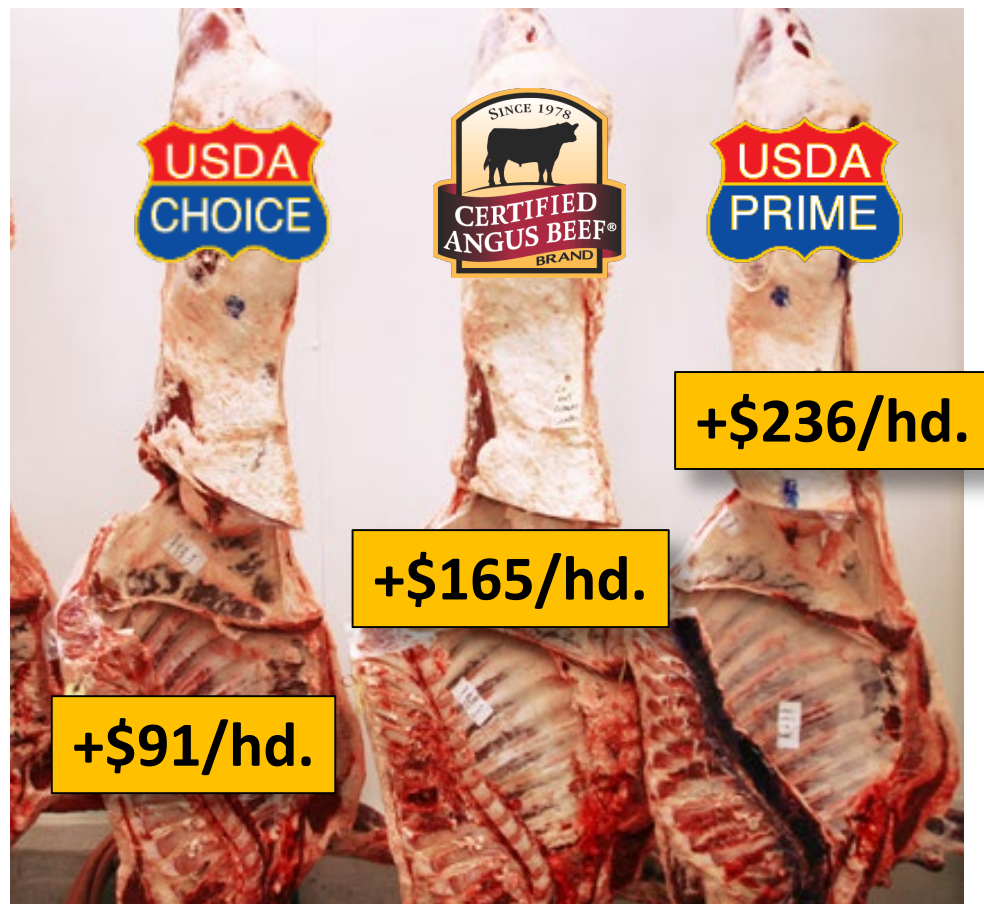


Source: Urner Barry & Certified Angus Beef LLC
*Projected



Boxed Beef Values & Spreads by Quality Grade/Brand

Wholesale Carcass Value Differences
Compared to USDA Select



2019*	Prime	CAB®	Choice	Select
Cutout, \$/cwt	235.06	227.16	218.95	208.88
Spread, \$/cwt	7.90	8.21	10.07	



Assuming 900 lb HCW & 2019 cutout values

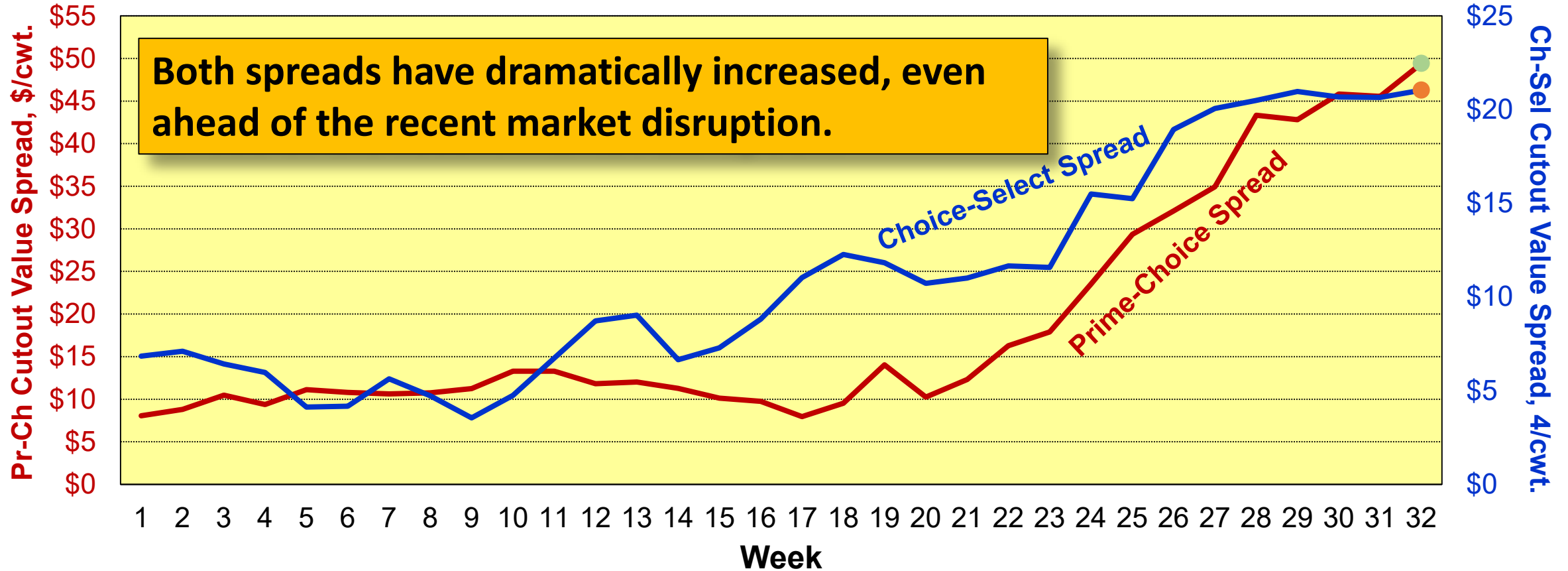


Source: USDA AMS (Pr, Ch, Se) and Urner Barry Yellow Sheet (CAB®)

*Data through week beginning 7/15/19

2019 Weekly USDA Cutout Value Spreads

Data through week beginning 8/5/19

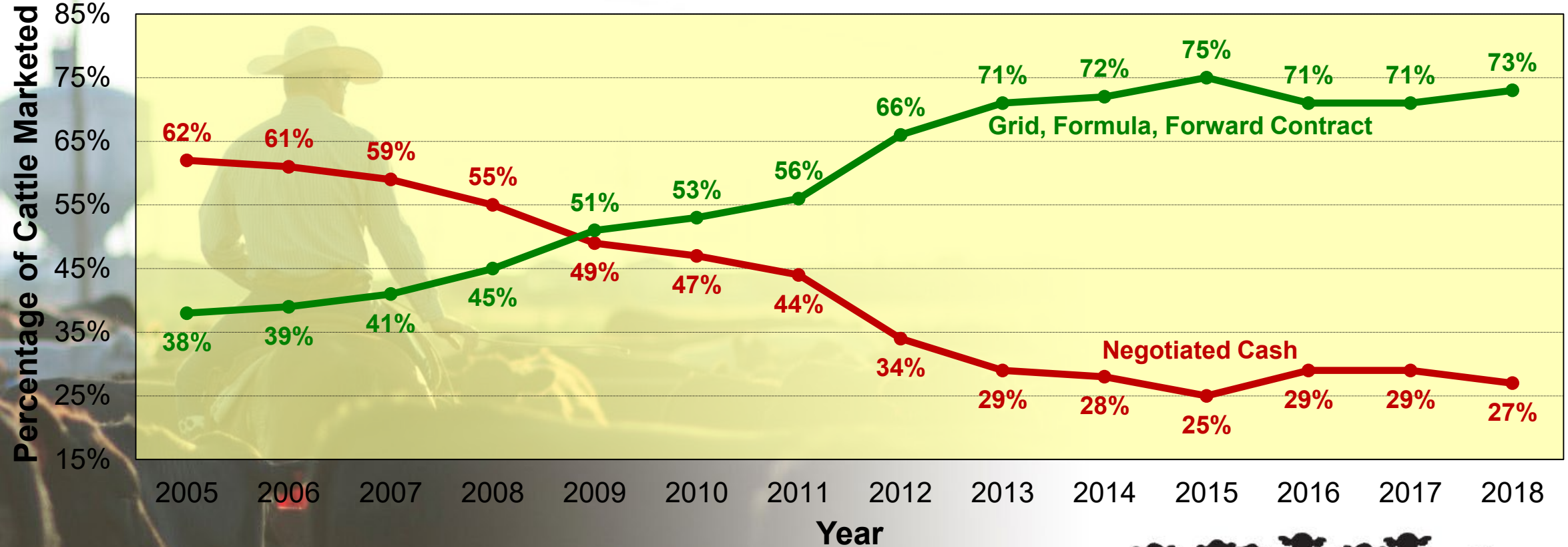


Source: USDA AMS



Grid Marketing Has Sent the Signal for Quality

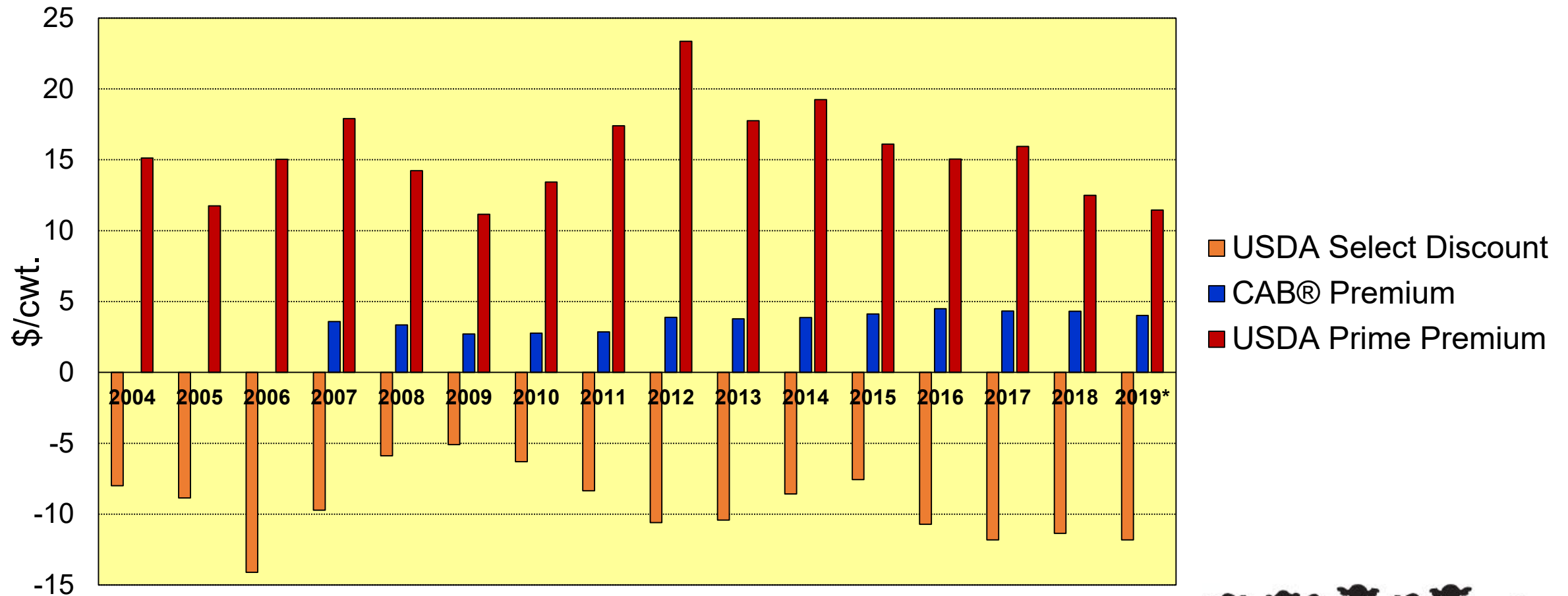
Trend in Fed Cattle Marketing Methods



Source: U.S. Department of Agriculture (USDA), CattleFax
*USDA 5-Area: TX, OK, NM, KS, NE, CO, IA, MN



Grid Premiums and Discounts for Quality Grade

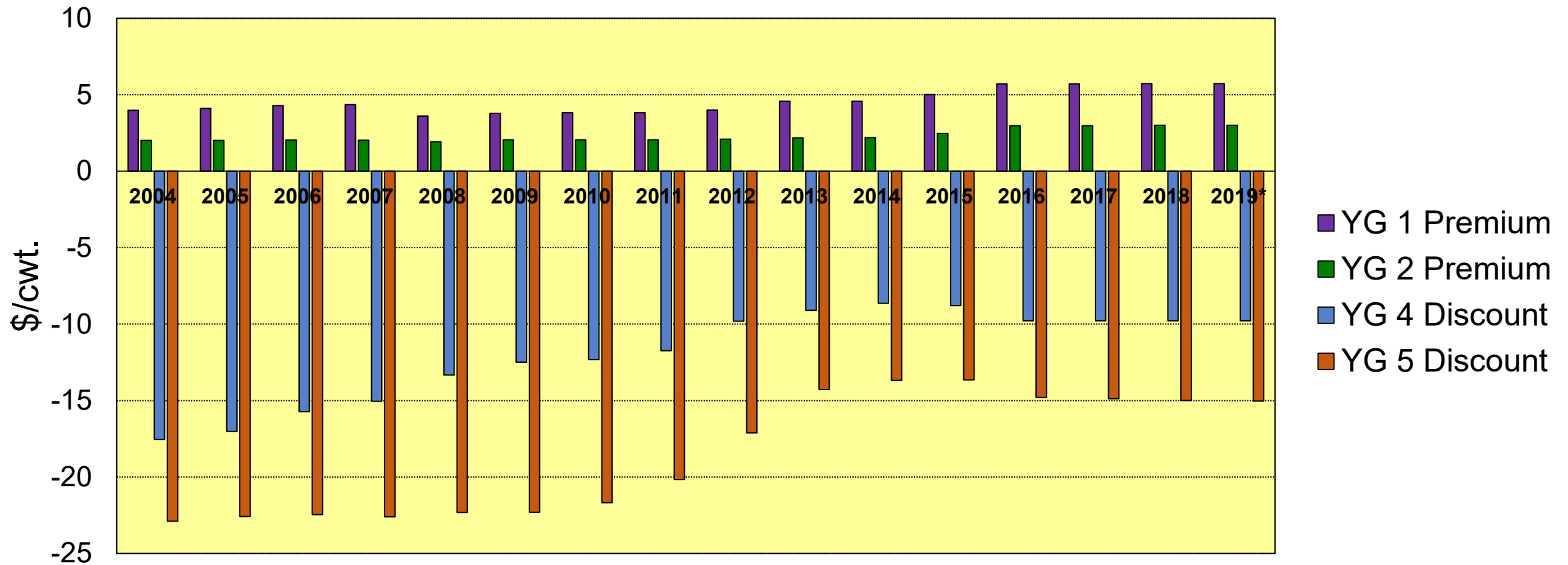


Source: USDA AMS, LM_CT169

*Data through week beginning 8/12/19



Quality Signal Within Grid Yield Grade Discounts



Source: USDA AMS, LM_CT169

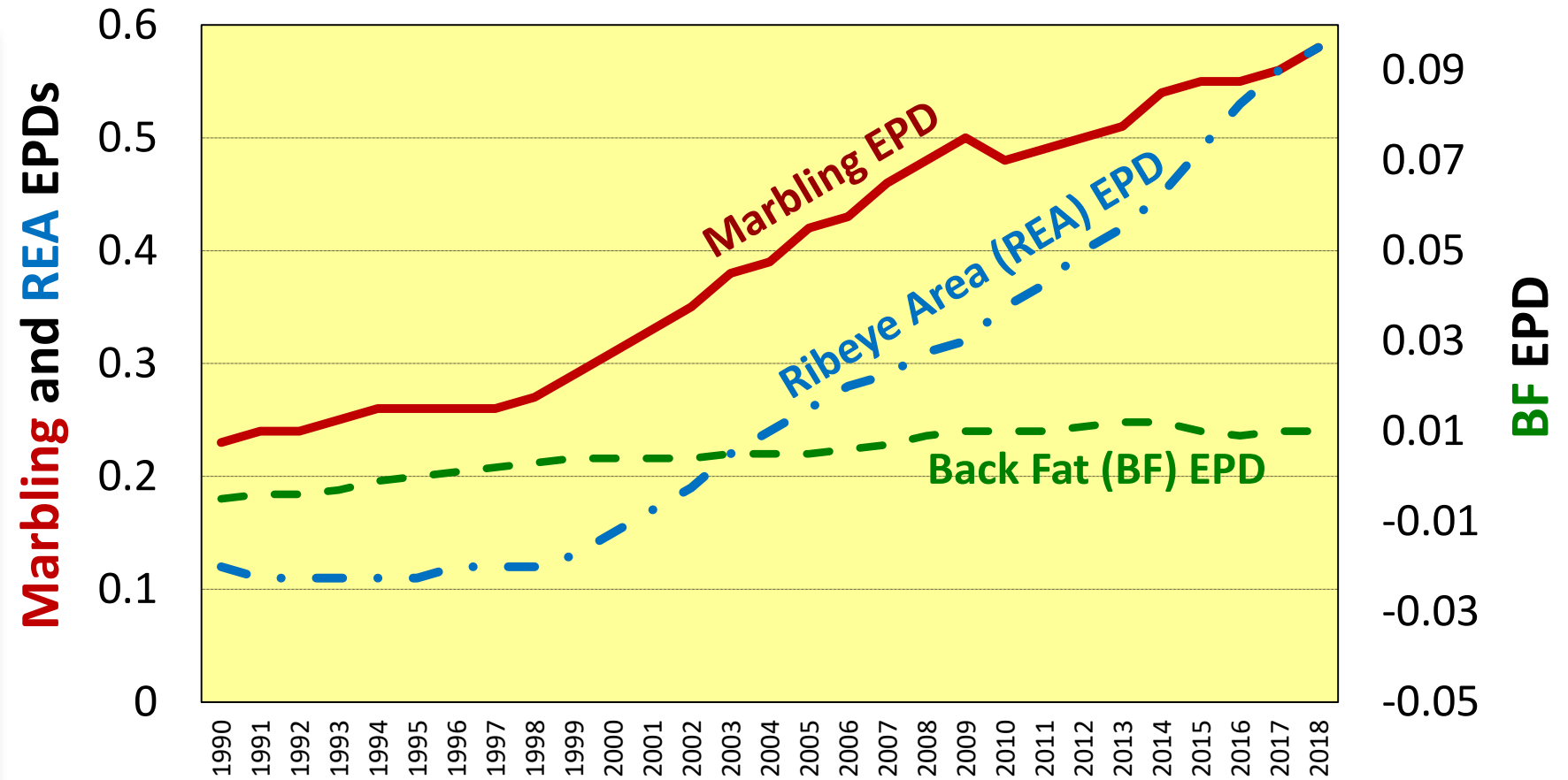
*Data through week beginning 8/12/19



An Industry Working to Align Around a Common Goal More Than Ever Before




Angus Genetic Trends for Carcass Traits



Source: American Angus Association, 2019



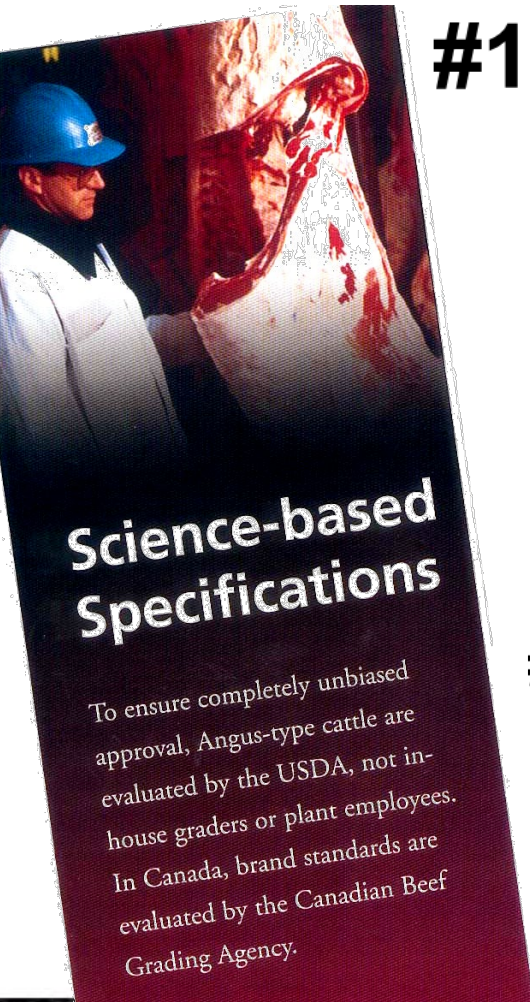
Genetics Have Allowed Cattlemen to Raise Cattle that **GRADE & PERFORM**

	Finished Weight (lbs.)	Average Daily Gain (lbs./d)	Feed to Gain	Cost of Gain
High Grading (90% Choice and Prime; 45% CAB®)	1398 (166 DOF)	3.53	5.94	\$0.70
Low Grading (60% Choice and Prime; 13% CAB®)	1354 (152 DOF)	3.58	5.85	\$0.72

*Steers Only
616 Pens, 136K head
Conventionally-raised
750-850 lb. Placement
June-Oct '17 closeout*



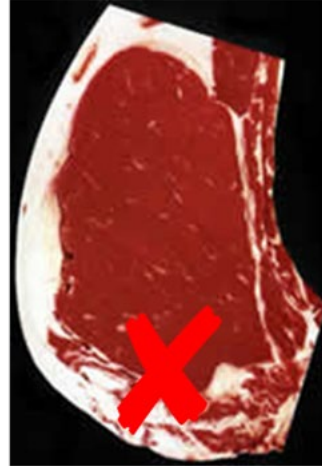
Top 3 Reasons Rejected Carcasses Don't Qualify



#1 92.6% - Insufficient Marbling



Modest⁰⁰



Small⁰⁰

Brand Specifications

1. Modest or higher degree of marbling
2. Medium to fine marbling texture
3. Less than 30-months of age ("A" maturity)
4. 10.0–16.0 in² REA
5. HCW of 1,050 lb. or less
6. Less than 1.0 inch backfat
7. No neck hump exceeding 2.0 inches
8. Moderately thick or thicker muscling
9. Practically free of capillary rupture
10. No dark cutters

#2 11.2% - Ribeye Area Too Large



#3 9.1% - Hot Carcass Weight too Heavy



Something For Us All To Keep In Mind



Consumer
Spending



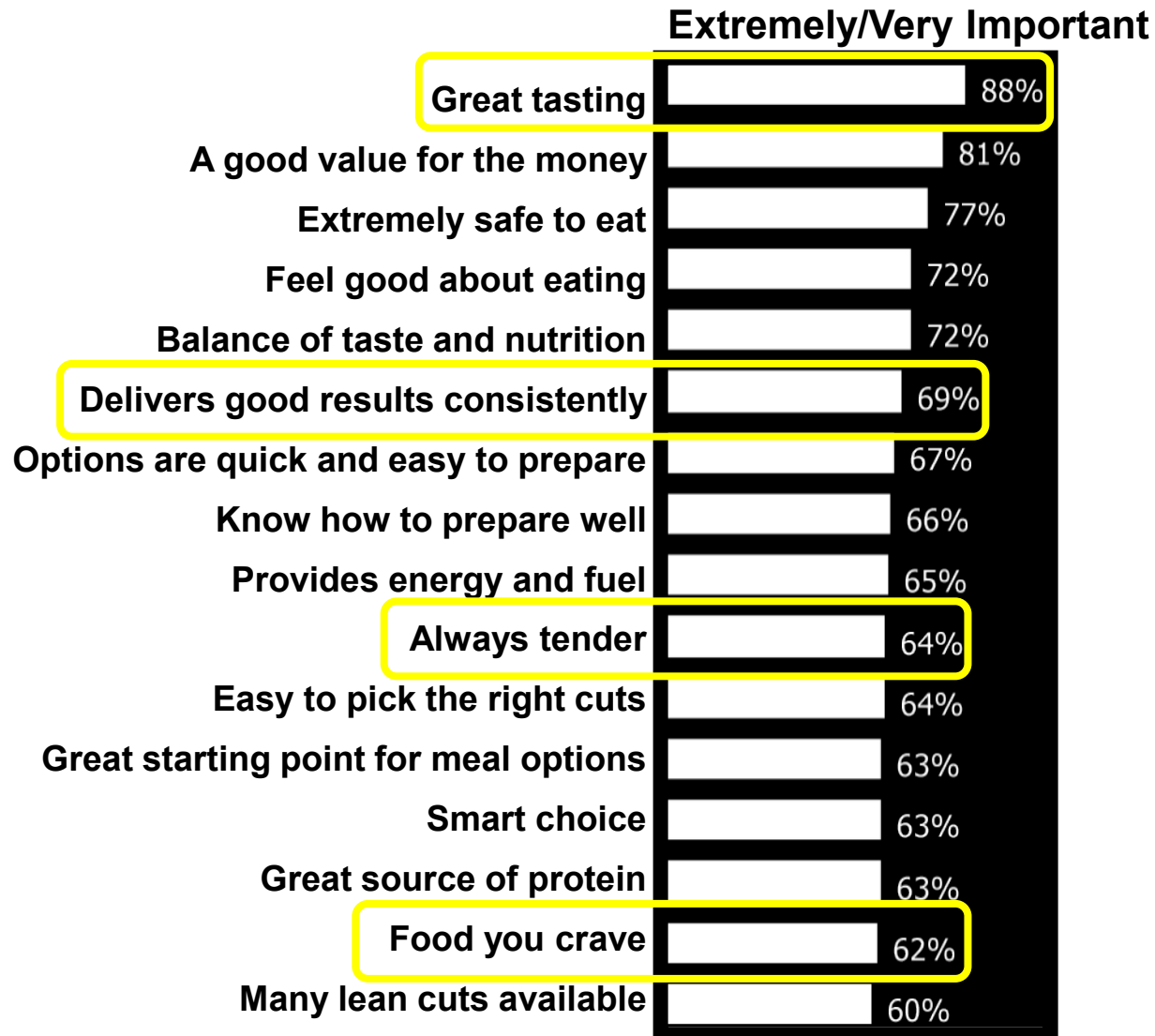
Producer
Revenue

The only sustainable flow of dollars from which we each can continue to build our business comes from consumers.



Consumer Beef Purchase Drivers

**Taste and Product
Quality Attributes Drive
Consumer Purchases**



Source: Consumer Beef Index



**National Cattlemen's
Beef Association**

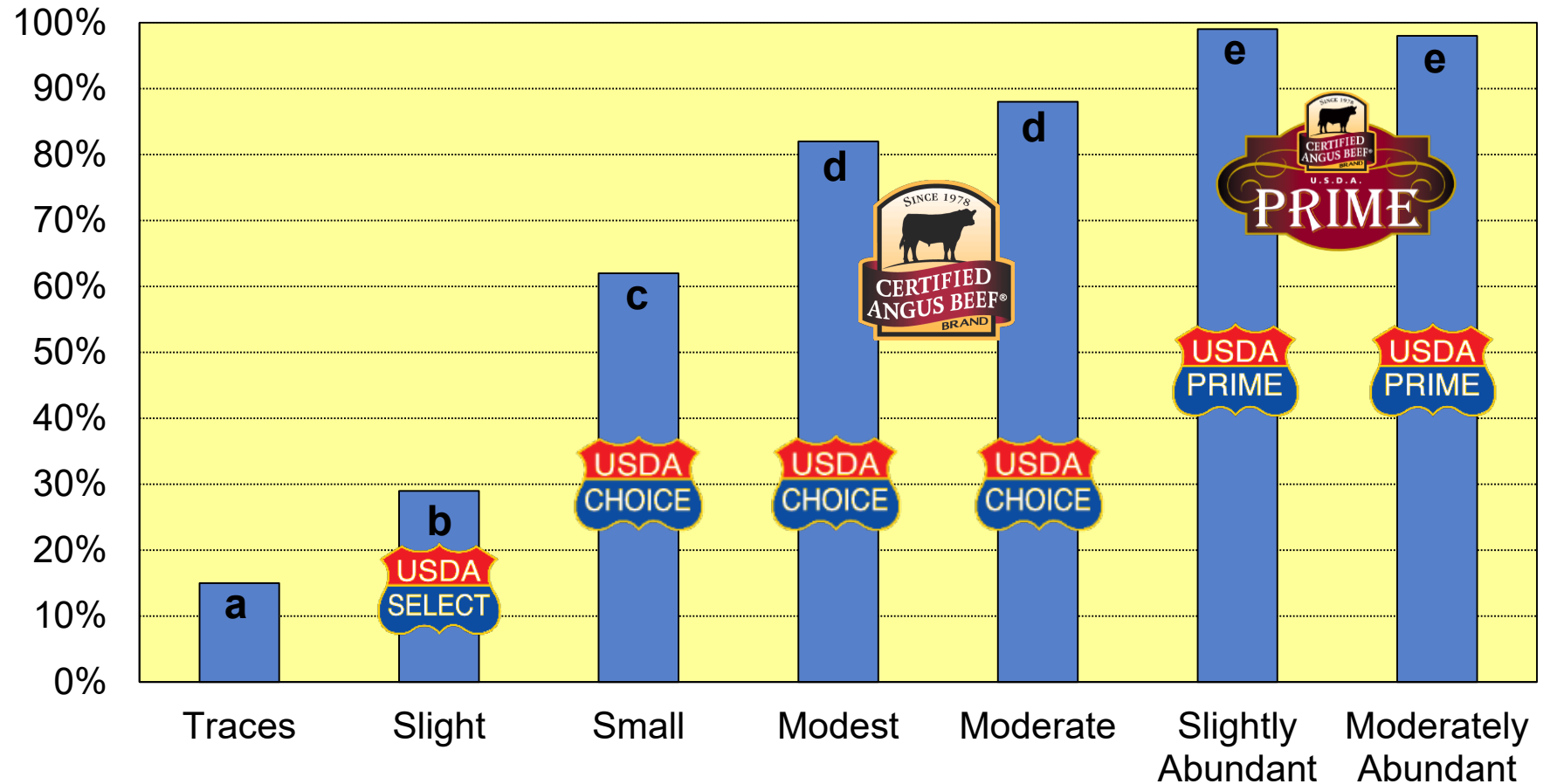
Cattlemen • Leadership • Solutions



Consumer satisfaction improves as marbling increases



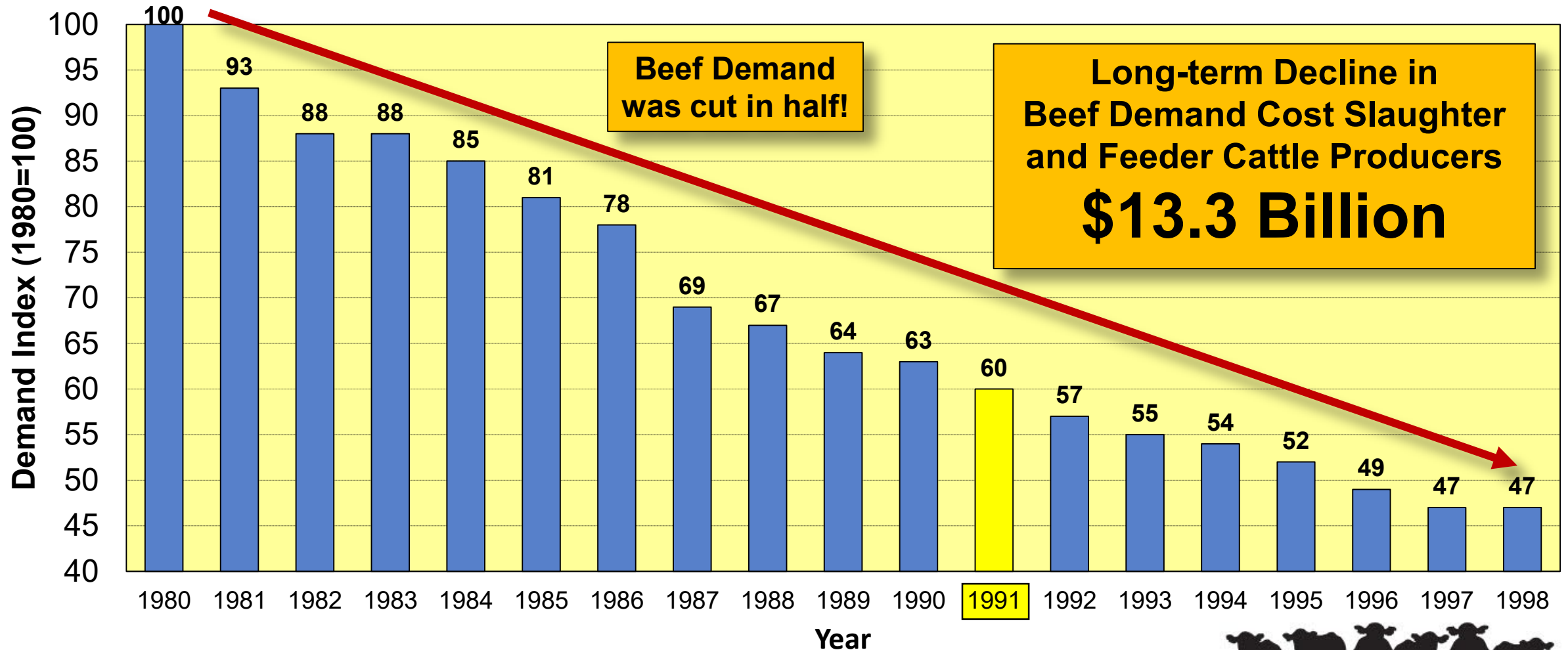
Percent likelihood of having a positive eating experience



Source: Emerson et al., 2013

a-e Probabilities that do not share a common superscript letter differ, $P < 0.05$

Annual U.S. Retail Beef Demand Index



Source: U.S. Department of Agriculture (USDA), BLS, Kansas State University
*2018 CattleFax Projection





National Beef Quality Audit



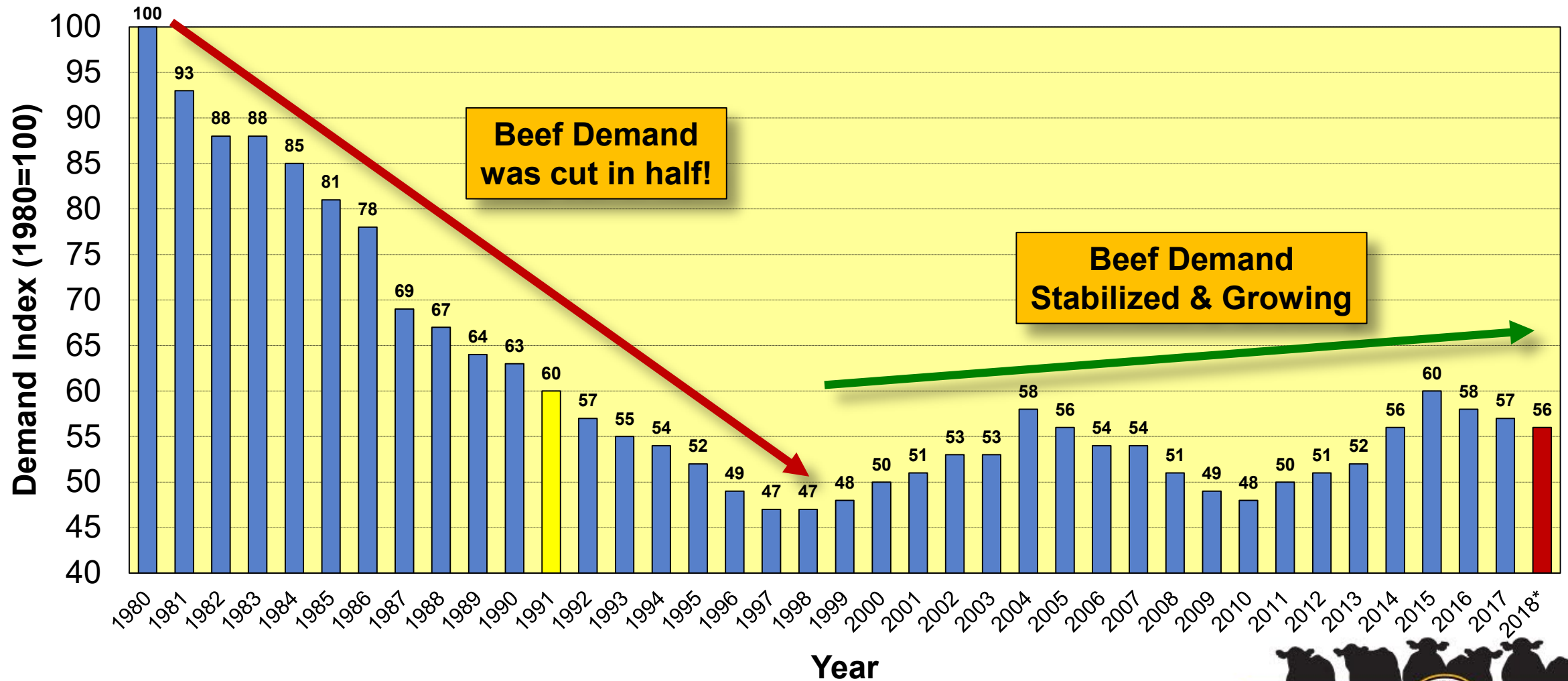
Funded by the Beef Checkoff

Quality Challenges – Ranked According to Priority

1991	1995	2000	2005	2011	2016
External Fat	Overall Uniformity	Overall Uniformity	Traceability	Food Safety	Food Safety
Seam Fat	Overall Palatability	Carcass Weights	Overall Uniformity	Eating Satisfaction	Eating Satisfaction
Overall Palatability	Marbling	Tenderness	Instrument Grading	How and Where Cattle were Raised	Lean Fat and Bone
Tenderness	Tenderness	Marbling	Market Signals	Lean Fat and Bone	Weight and Size
Overall Cutability	External and Seam Fat	Reduced Quality Due to Use of Implants	Segmentation	Weight and Size	How and Where Cattle were Raised
Marbling	Cut Weights	External Fat	Carcass Weights	Cattle Genetics	Visual Characteristics



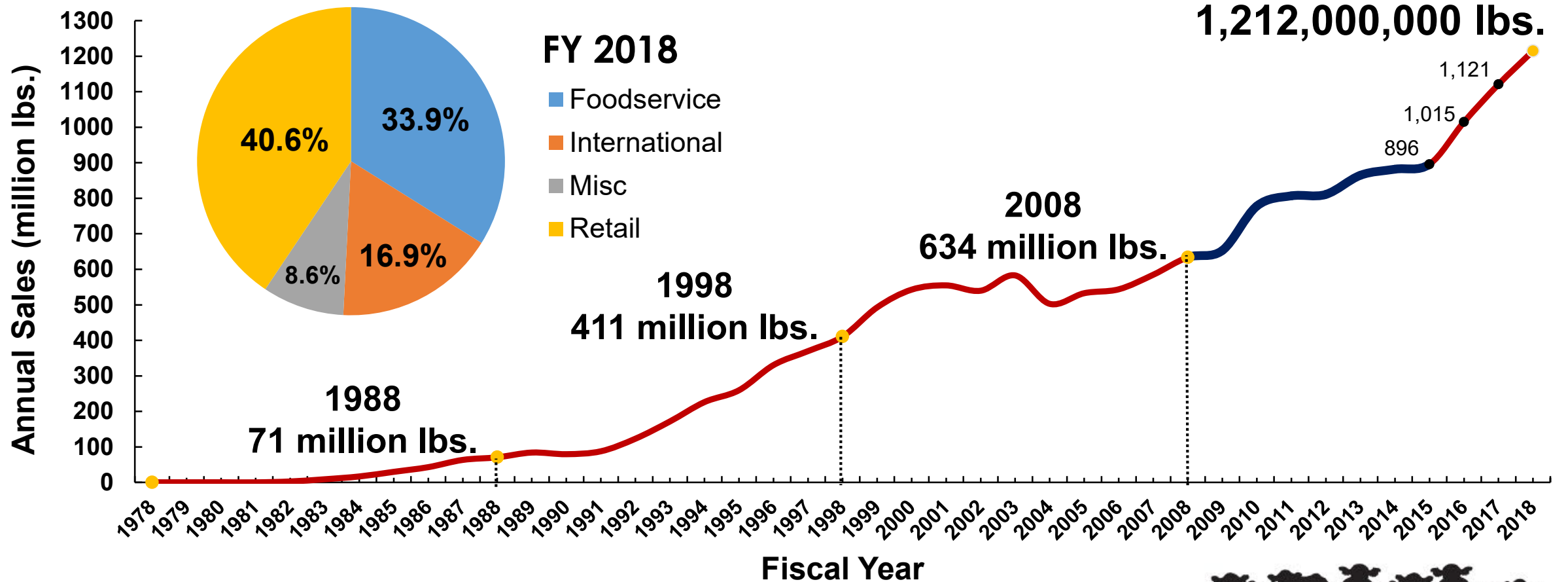
Annual U.S. Retail Beef Demand Index



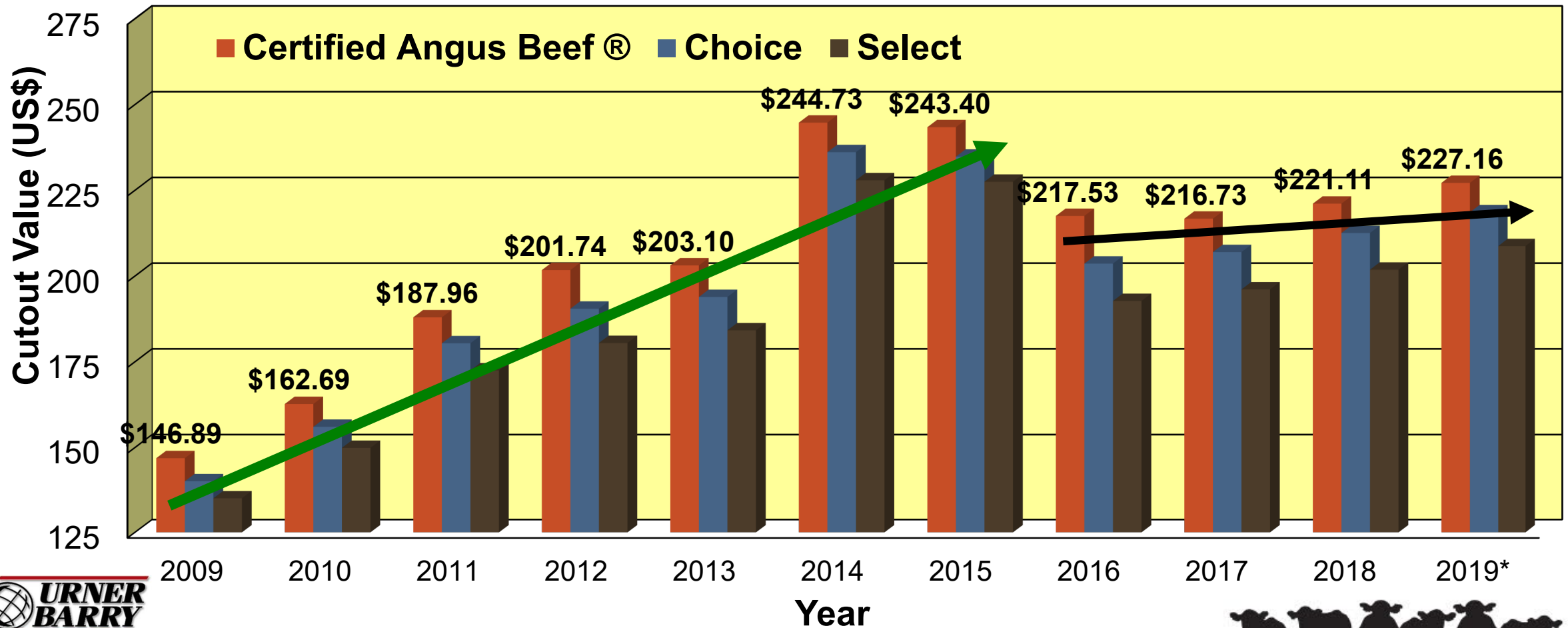
Source: U.S. Department of Agriculture (USDA), BLS, Kansas State University
*2018 CattleFax Projection



Certified Angus Beef® brand Sales



Annual Average Cutout Values



*Data through week beginning 7/15/19



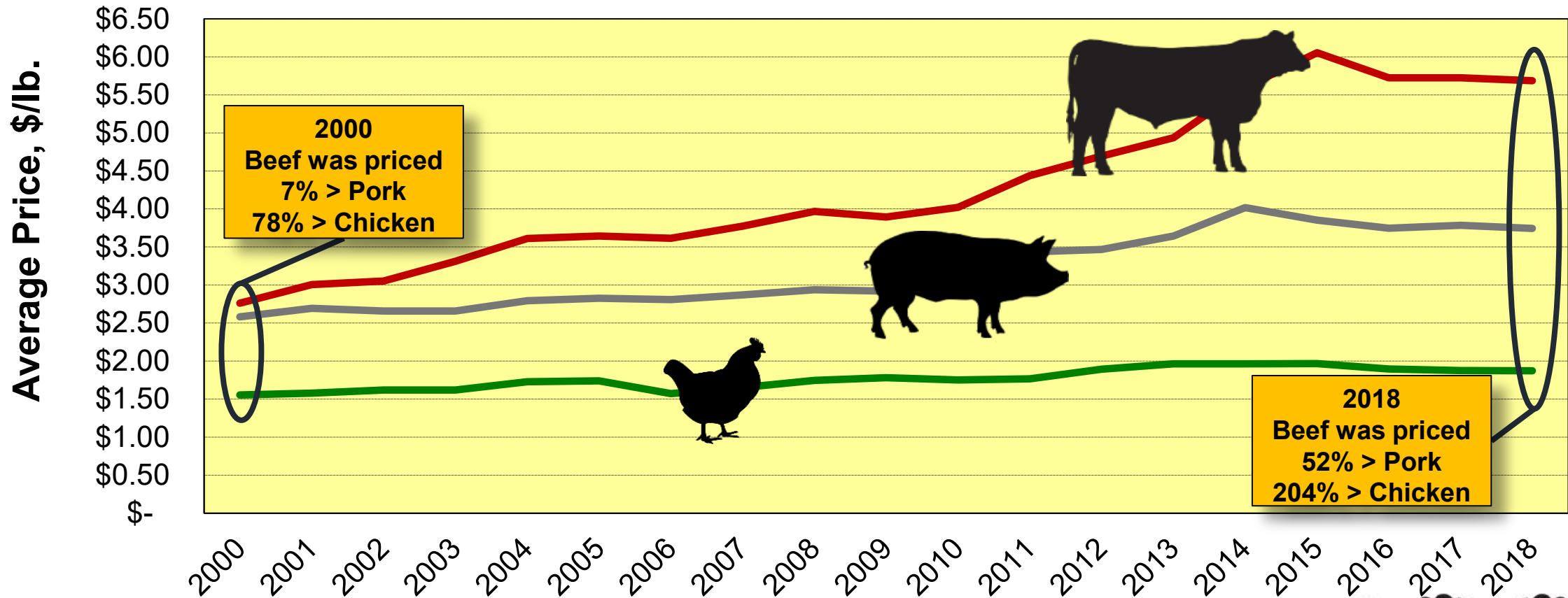


Consumer spending
decisions are based on a
Price:Value
relationship.



Importance of the Price:Value Relationship

Comparative Retail Pricing Across Proteins



Source: USDA Economic Research Service, 2018



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TABLE TALK

Deliciousness Is What Matters Most

Food of the future may need to be more sustainable, nutritious and biodiverse—but none of that will appeal if it doesn't taste good

By Bee Wilson

July 25, 2019 11:25 am ET

For all of our modern food quandaries, delicious still wins. Sustainability matters, for sure, but what really speaks to us most about food remains the pleasure that it gives to us. It's a shame that we spend so much of our lives denying this simple truth.



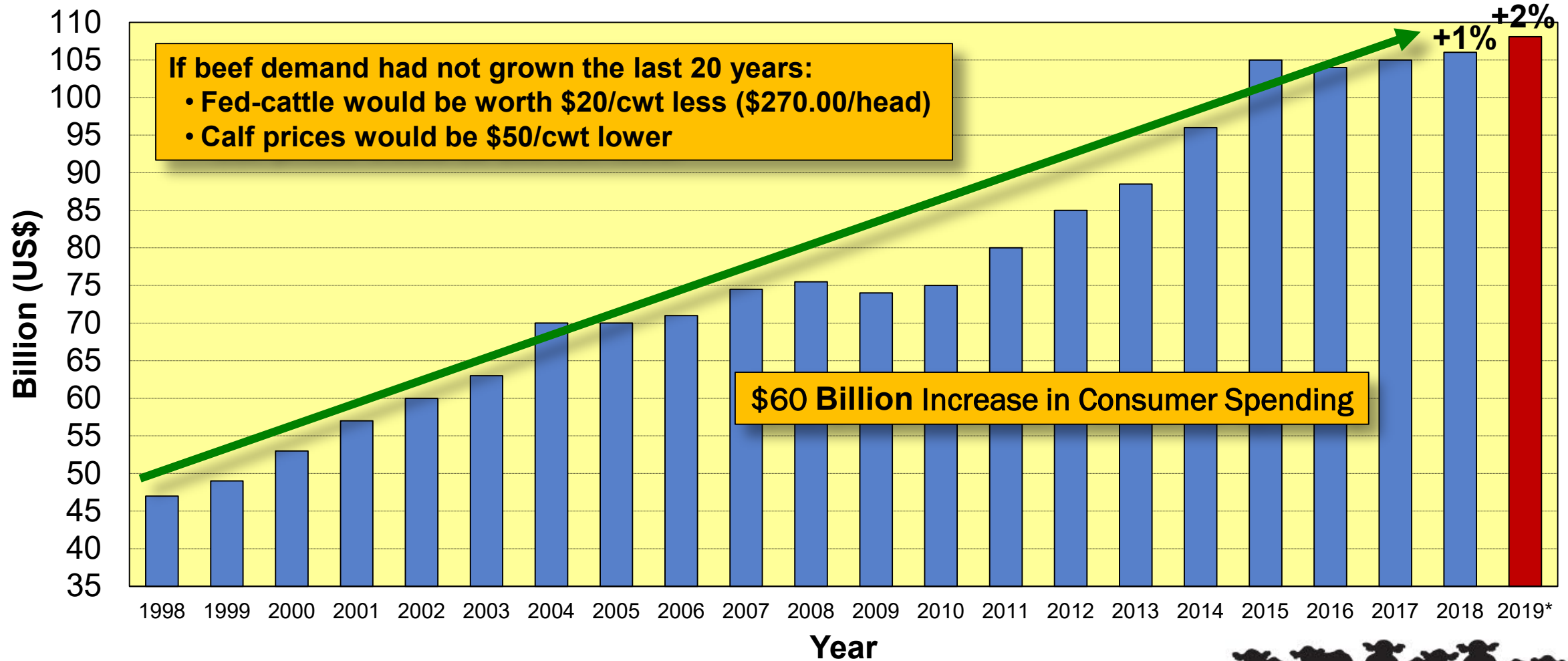
The VALUE Consumers are
Demanding for the PRICE

...that the end product we deliver is not meat,
but rather TASTE.

People will PAY MORE for greater satisfaction
...and taste is their measure of satisfaction.



U.S. Consumer Expenditures on Beef



Source: U.S. Department of Agriculture (USDA)
*2019 CattleFax Projection



Demand Drivers of Quality in the Future

1. Better Product = More Consumer Confidence = Stronger Demand
2. Bigger supplies are allowing broader customer access



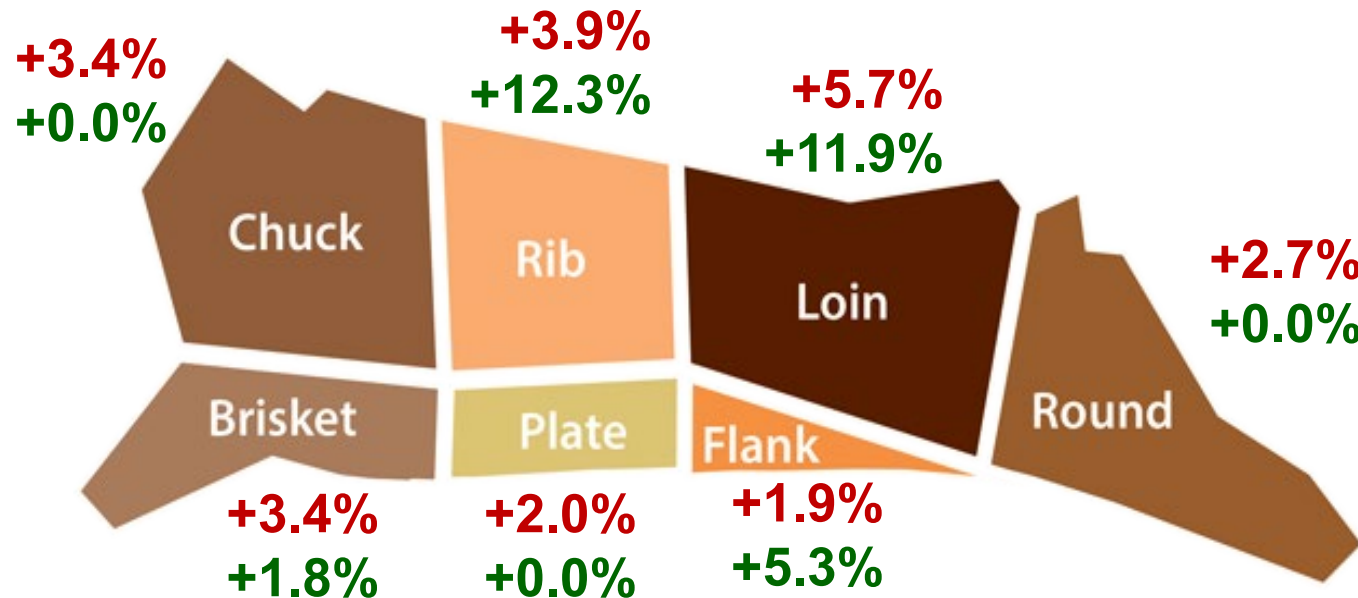
Demand Drivers of Quality in the Future

3. Ground beef is no longer quality grade neutral

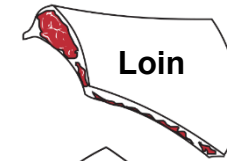


Demand Drivers of Quality in the Future

4. Value of marbling beyond middle meats/steaks



Certified Angus Beef® brand
Premium over Choice
*Assumes 900 lb. HCW



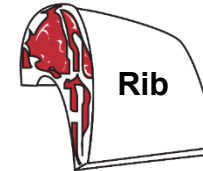
Loin

\$35.31/hd



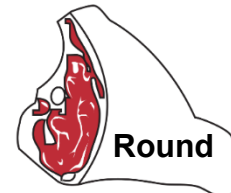
Chuck

\$15.21/hd



Rib

\$14.45/hd



Round

\$8.97/hd



Certified Angus Beef® 3.9% premium to Choice



USDA Choice 5.3% premium to USDA Select



FEEDING QUALITY
— FORUM —

*2019 Urner Barry data through week beginning 7/29/19

Demand Drivers of Quality in the Future

5. Global demand and export opportunities



More than 30% of brand sales growth has come from International Markets the last two years.

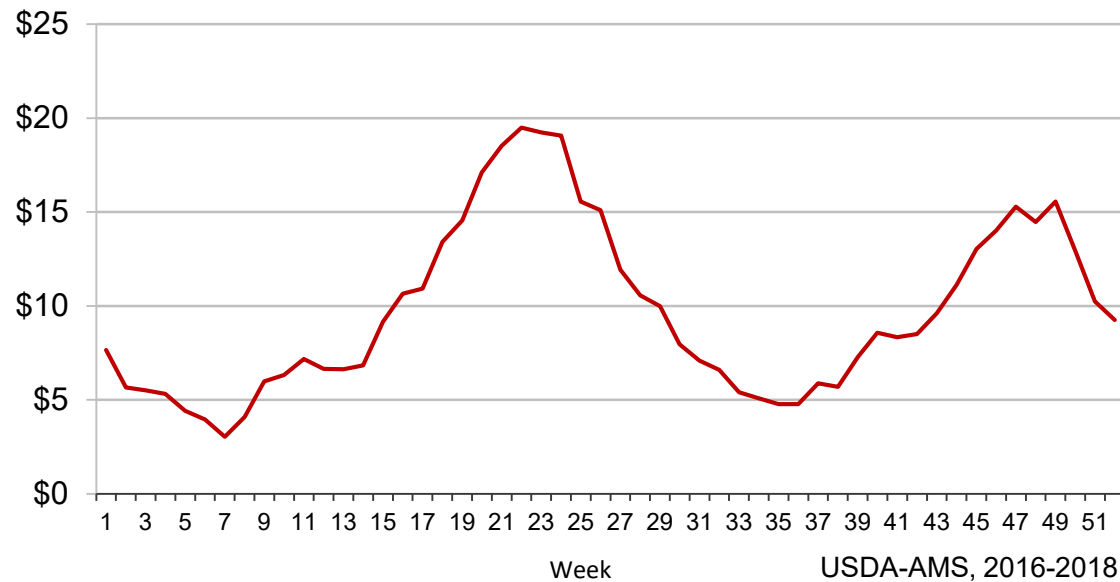


Demand Drivers of Quality Moving Forward

6. Risk management features (Greater marketing flexibility)

3 Year Average Choice-Select Spread

Dollars per cwt.

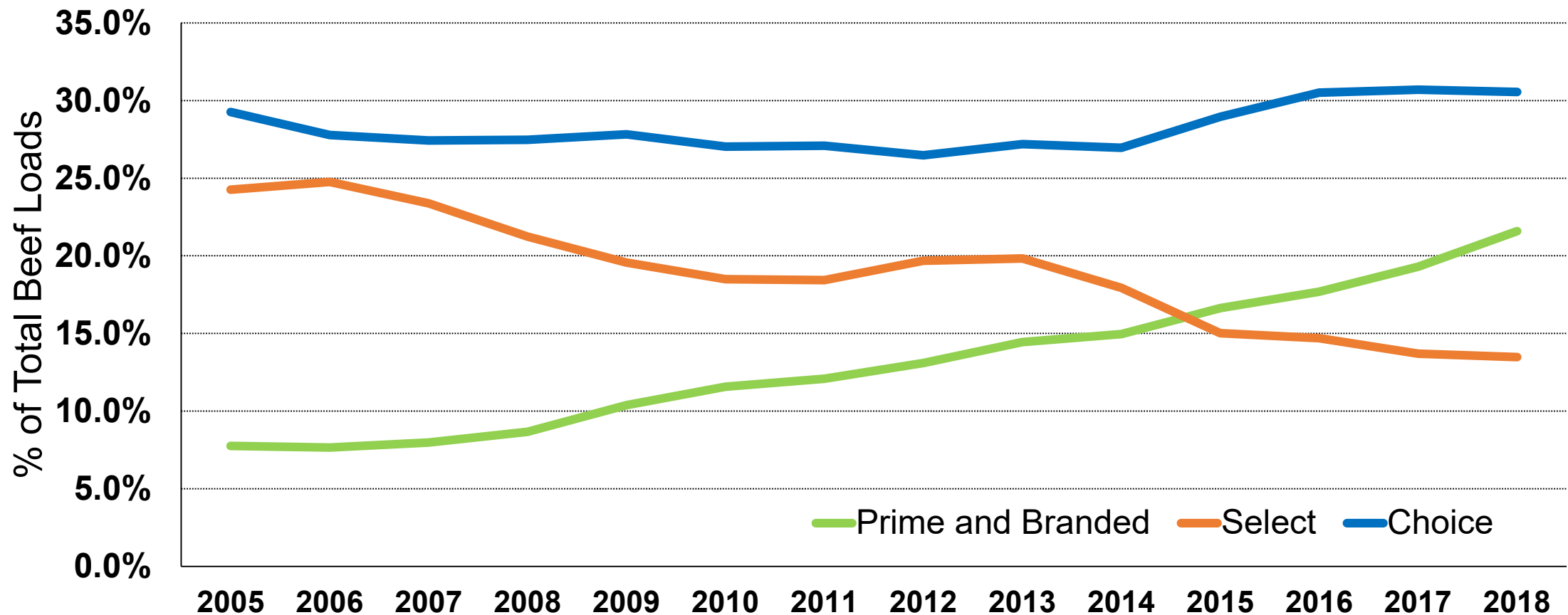


Prices Received for Corn by Month – United States

Dollars per bushel



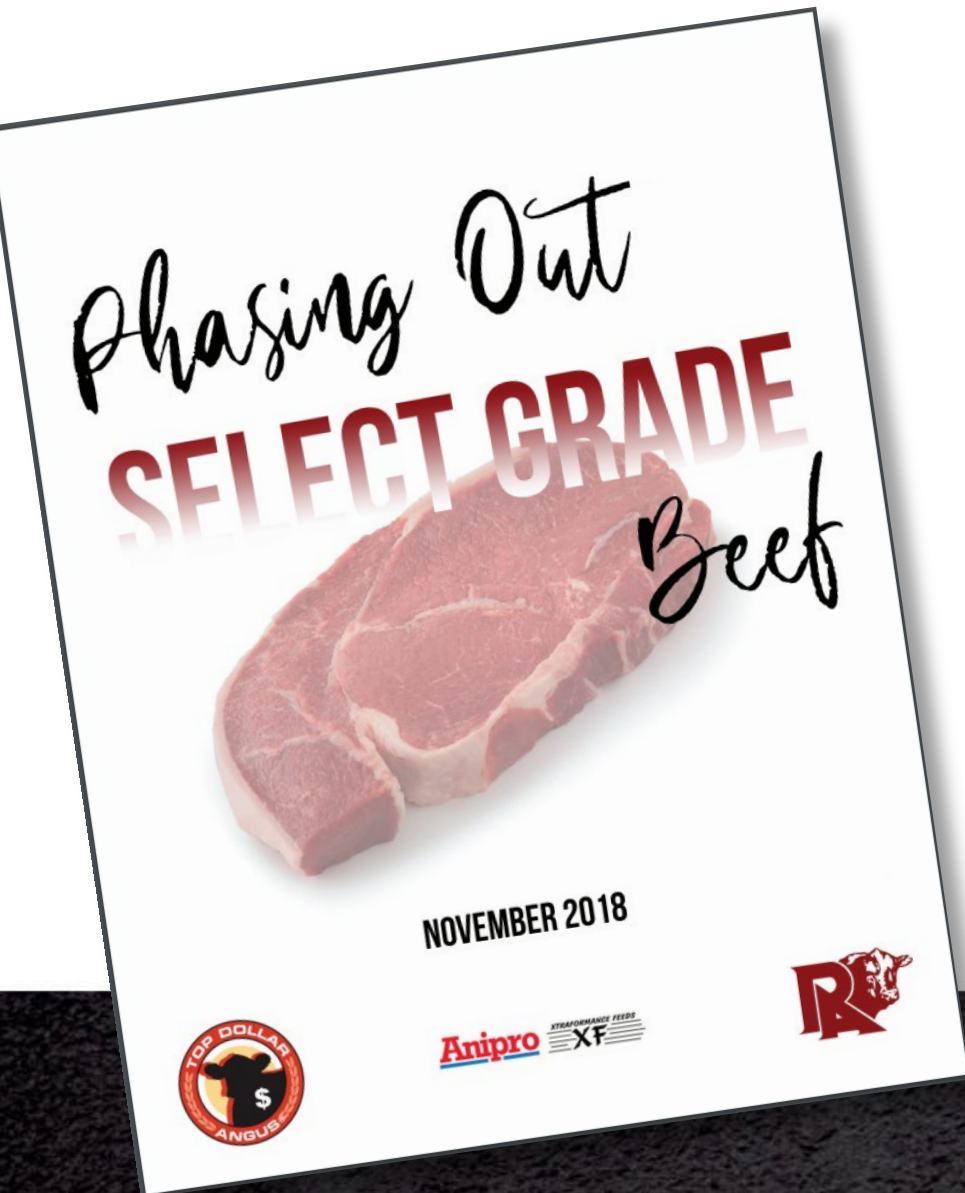
Percent of Boxed Beef Sales by Grade



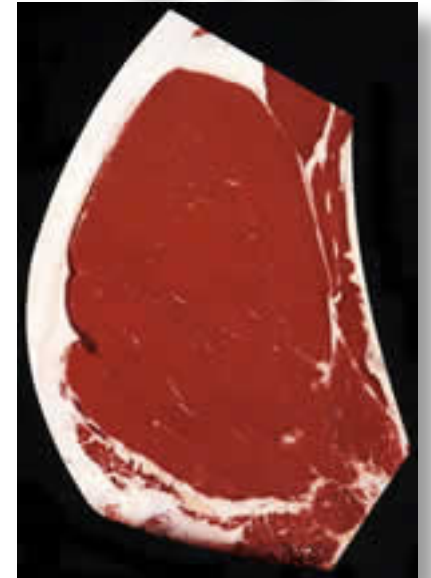
Source: USDA AMS Comprehensive Cutout



Declining Production of USDA Select Grade Beef



*"The trending decline in USDA Select will likely continue and could represent **5% or less** of graded beef tonnage by 2025."*



Slight⁰⁰
Marbling Score



Summary Points



1. Increased quality translates to increased demand.
2. Improvement in marbling has been intentional and in response to market signals.
3. In light of significant production increases, economic signals continue to support quality.
4. Genetics are a key factor and can allow quality production with little to no extra cost.
5. Many demand drivers support a quality-focus moving forward.

A photograph of several black Angus cattle in a feedlot. They are lined up behind a metal railing, eating feed from a trough. A white tag with the number '206' is visible on a post in the background. The cattle have white ear tags, one of which clearly shows 'EX-100'.

Too Much Quality?

No

