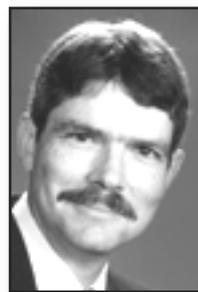


Why “Trade Down?”

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Demand for beef is down. Can you blame the recession? Not entirely, but it's a darned inconvenient coincidence.

It's hard to argue that beef quality was too low, because production of every class of premium beef has been trending up for some time.

The supply of Choice beef in particular has increased for six years, and at an increasing rate, especially in the last two years. In concert with that, supplies of Select beef declined in quantity and total value.

Beef industry observers don't understand why beef quality turned sharply higher in 2008, and because the greater supply was unexpected, our multi-billion-dollar industry could not adjust quickly enough in the short run.

With a huge share of business locked up in contracts that reflect expectations, it takes many months for the rudder to deploy, let alone turn the ship. Those reactions were slowed by economic panic, especially in the foodservice sector.

They were also muffled by deployment of other rudders.

For more than a decade, the beef industry has worked to add value to the previously underutilized chuck, the front portion of every carcass. First came the teres major and flat iron steaks; as their popularity grew, the industry followed with another round of discoveries such as the Denver steak, ranch steak and country-style ribs. More packing plants and processors began to break down the chuck to supply this demand.

As restaurateurs saw options beyond the middle meats, those strips, rib-eyes and filet mignons, chefs who never bought anything from the chuck started buying a lot of the new “value cuts,” especially in premium Choice and Prime, with their inherent safety net of superior marbling.

This strategy has been a key to the upper tiers of beef quality maintaining stronger demand. A rancher might check the Choice-Select spread to monitor demand for quality, but that number – lately quite small – does not reflect the stronger demand for higher quality most of which has been sorted off to premium brand

markets.

Gradually, the beef industry's campaign to build demand for the new chuck cuts have helped train meat buyers and consumers to “trade down,” especially during times of financial pressure. There's evidence that shoppers may trade down to a value cut, or even ground beef, within their premium quality brand, rather than switch to a lower grade overall. Of course, others trade all the way down to chicken or pork, but the beef value cuts have helped hold the line.

The recession is still the dominant factor, and it can't last in the long run. In better times, the middle meats will regain their value and the whole beef animal will be worth a lot more.

The market just needs time to regain equilibrium.

It makes little sense to argue that we have too much high-quality beef, if we are serious about regaining that demand. Consumers' taste buds have not changed.

A new wave of retailers is moving up to allow their customers to buy beef of Choice or higher quality. Foodservice operators recovering from the recession will see no future in the inconsistency of Select beef as they welcome back old customers and try to win new ones.

Producers must look beyond the less-relevant Choice-Select spread today, and realize there is no market signal to back away from quality. The cost/price squeeze is calling for greater efficiency, and you can move ahead there in tandem with quality goals. If your cattle are too small, you can easily change that, but keep in mind that selection for efficiency tends to result in smaller cows.

Every sector of this economy features competing messages and analyses, but if you cut to the bottom line, it's always about value. Look at any selection or management changes that can add long-term value with uniformity and predictability. Choose replacements from your most efficient cows and restrict their breeding season to a few weeks that best fit least-cost production.

Cull for disposition to save labor and equipment costs, and develop a herd that's easy to lead where you want to go. If you are already on track to produce high-quality beef that's still supported by the bedrock of consumer demand, why would you trade down? Δ

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