

## Grass Fed Beef: Production, Marketing & Economics Update

By Allen R. Williams, Ph.D.

The U.S. grass-fed beef sector has experienced exponential growth over the past 15 years. With continued strong growth projected, grass-fed beef provides a good opportunity for producers.

According to data compiled by the Wallace Center of the Winrock Foundation, retail sales of domestically produced grass-fed beef topped \$400 million in 2013, compared to less than \$5 million in 1998 when only about 100 beef producers were seriously involved in grass-fed beef production. In the past 10 years, the demand for grass-fed beef has grown at an annual rate of 25-30%. Recent consumer research indicates that this pace will not slow down significantly any time in the near future.

Consumer interest in grass-fed beef first surged in 2003 when “Mad Cow” or BSE rocked the U.S. beef industry. Market channels that had once ignored grass-fed beef suddenly opened. The second major surge in demand happened right in the middle of the 2008-2010 economic recession. Most meat industry pundits were predicting that demand for specialty meat products, like grass-fed beef, would take a huge hit with consumers flocking back to cheaper commodity beef. However, just the opposite occurred—consumer demand for grass-fed beef surged once again and opened up more new market channels.

The Mintel Red Meat Report, issued annually, provides valuable insight into consumer purchase habits. The 2012 Mintel Red Meat Report shows that 43% of all consumers surveyed had purchased “Grass Fed” or “Locally Raised” beef within the past year.

The Mintel report also looks at attributes. On a scale of 1 to 10, with 10 being the most important, consumers rated the attributes “grass fed” 7.2, “environmental impact” 7.5, “hormone/antibiotic free” 7.9, and “taste” 8.7. Grass-fed beef production typically has a favorable environmental impact and is generally hormone- and antibiotic-free. However, there can be wide variations in the taste of grass-fed beef. Since taste was the most highly rated of the four attributes, it is important that grass-fed beef producers pay particular attention to factors that can create off flavors. Well finished, high quality grass-fed beef typically produces an outstanding robust beef flavor that many chefs and consumers prefer.

A recent study conducted by Wellspring Management and LMC, LLC determined that grass-fed beef demand in several major metro markets in the U.S. was 3.0% to slightly over 6.0% of the total beef market share. The same study also revealed that the top 15 grass-fed branded beef programs in the U.S. were now harvesting over 2,000 head of grass-finished cattle weekly and more than 100,000 head annually. A number of these branded programs have experienced

growth rates of more than 50% over the past two years. These programs are marketing grass-fed beef to more than 5,000 retail locations including stores such as Super Target, Kroger, Hy-Vee, Costco, and many others.

Rapid growth in grass-fed beef demand in the U.S. has not gone unnoticed by other major branded beef programs, packers, and investors. There are a number of major branded beef programs that are actively sourcing and marketing grass-fed beef in the U.S. This includes such long-established branded meat programs as Meyer Natural, Maverick Ranch, Nolan Ryan, Country Natural, Strauss Brand, and many others. Cargill, one of the "Big Four" packers in the U.S. recently announced that they will begin marketing an Australian produced grass-fed beef in the U.S. Cargill is partnered with Teys Australia, a 67-year-old Australian beef processor, and has been actively marketing grass-fed beef into the Asian market. They are now importing Teys Australia beef products into the U.S.

This rapid growth does not mean the grass-fed beef sector is immune to problems. As a matter of fact, the more rapidly a sector or business grows, the more likely it is to encounter problems. Even though we have come a long way over the past 10 years, we still have significant challenges and problems we must deal with. However, with challenges and problems come opportunities. As we identify and implement solutions, we will continue to strengthen the grass-fed sector and build market share.

Many of the challenges we currently face are not unique to the grass-fed sector, but are common to the beef industry as a whole. These include things such as ongoing drought in many areas of the U.S., unstable weather patterns throughout the country and globally, ever-rising input costs, record high live cattle prices, record high retail beef prices, an ever-diminishing national beef cow herd, more land being converted from grassland into corn and soybean production, higher land prices, and increasing competition for the consumer dollar from other protein sources.

At the 2013 Grass Fed Exchange Conference in Bismarck, N.D., Bill Helming, former NCBA Chief Economist and Founder of CattleFax, presented data that showed the national cow herd inventory has declined 36% over the past 39 years, from 45.7 million head in 1975 to 29.3 million head in 2013. In addition, per capita beef consumption in the U.S. has declined 33% from a high of 84.4 pounds per person in 1970 to a low of 56.6 pounds per person in 2012. With record high retail commodity beef prices for USDA Choice beef now at \$5.39/lb, beef market share in the U.S. should continue to shrink in the near future as consumers increase purchase of cheaper protein food sources. Of increasing interest and importance is the fact that consumers are purchasing more and more beef in ground form. In 2012, more than 56% of all beef consumed in the U.S. was in the form of ground beef.

Helming called the U.S. beef industry a “one trick pony” and stated that we must reinvent ourselves if we want to remain relevant in the protein market. He predicted that the beef industry will rapidly segregate into three major market sectors: commodity grain-fed beef, all natural and organic grain-fed beef, and the lean grass-fed beef market. His prediction is that grass-fed beef will make up at least 30% of all domestic beef produced within the next 10 years.

My take is that we will see (and are already seeing) the U.S. beef industry segmenting into five major sectors: commodity grain fed, all natural grain fed, lean grass fed, high quality grass fed, and non-GMO specialty grain fed. Due to ever increasing consumer demand, the growing organic marketplace is creating greater need for domestic organic grass fed beef supply.

Grass-fed sector financial data compiled by The Wallace Center, Beginning Farmer/Rancher EIEIO program, LMC, LLC, and Michigan State University show that net return per acre opportunity is competitive with growing corn or other row crops. In an analysis of economic data from beef cattle operations in the Upper Midwest, a five-year average shows net returns per acre for cow/calf operations ranging from \$136 to \$165. However, grass-fed beef finishing operations averaged a net return per acre ranging from \$310 to \$589. This presents serious opportunity for those wanting to be involved in finishing grass-fed cattle for this growing market sector. Very recent projections from the Food and Agriculture Policy Research Institute (FAPRI) concerning row crop production show that net returns per acre for corn in 2014 to range from a net loss of \$31 - \$132 per acre to slight net returns of a positive \$25 - \$120 per acre depending on region of the country and anticipated yields. FAPRI projections for the row crop sector over the next 5 years anticipate corn remaining in the \$3 - \$4.50/bushel range. Based on those projections, grass finished beef production has potential to produce net profits per acre that are significantly higher than row crop production.

However, just as there are challenges that are common to the beef industry as a whole, there are also challenges that are either unique to the grass-fed sector or have a major impact on it. These challenges range from production-centered issues to issues with processing, further processing, cost control, dealing with USDA rules and regulations, cold storage, distribution, and marketing.

On the production side of things, we still have significant issues with proper animal genetics, forage and grazing management, optimum and cost-effective forage finishing, establishment of economies of scale, and 365-day forage finishing. With genetics, just like with mathematical equations, bad genetics in equals bad genetics out. The old saying that you can't make a silk purse out of a sow's ear is very true in this case. While it is true we can take lower quality stocker calves and “add value” to them, we cannot take bad genetics and have an animal that will finish well on grass and produce a high quality carcass that results in a favorable eating

experience. Likewise, we can have the best grass-based genetics available, and produce a poor end product due to an inability to properly finish on forage. There are many producers who have done a great job with grazing cow/calf pairs and even stocker calves, who have failed miserably when they tried to actually finish cattle on grass.

Cost of production and economies of scale are vitally important to the overall profitability of the grass-finishing sector. As producers we must determine how to effectively control costs so that we can determine adequate margin. In addition, with the current popularity of grass-fed beef, retailers and restaurants are demanding fresh beef (not frozen) 365 days of the year. That requires strategies that facilitate being able to finish cattle on forage on a year-round basis. Other important challenges include how to provide the market with a consistent, uniform end product throughout the year and how to provide that same product free of "off" flavors.

Processing, further processing, cold storage, and distribution are all critical factors in being able to deliver a quality product at a price range that works for our customers. We must be able to identify, locate, and secure cost-effective processing and further processing. In addition, that processing must meet cutting, packaging, portion control, and shelf life specifications that will satisfy retail, restaurant, and institutional food service customers, as well as direct market customers. In most cases, the processor will need to be USDA Inspected and certified organic for organic producers. Crucial items such as USDA retail label approval, adequate and affordable cold storage, and effective packaging must be addressed. This would include boxed beef transport needs.

Once product is processed and packaged, we must be able to get it to our customer cost effectively and efficiently. This is where distribution comes in. We have to identify and partner with distributors who can effectively market and deliver our products.

Finally, sales and marketing are probably the *most* important aspect of what we do. We can get everything else right in genetics, management, finishing, processing, and distribution and still fail simply because we do not do a good job of marketing our product. How we price the product, how we package, how we promote, product claims, marketing materials (brochures, pamphlets, websites, posters, etc.) all determine how effective we will be in securing adequate market share and achieving a reasonable return on investment.

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