The Federation of State Beef Councils
2017 Investor Report

2017 Investor Report
2017 Federation Division Board of Directors

Effertz, Jerry S. 
Caldwell, Dawn 
Abbott, Christopher J. 
Akin, James 
Allen, Jan 
Anderson, Don 
Anderson, Rod 
Bassett, Charles 
Baxter, Keith 
Bayer, Matthew 
Beverly, Joel 
Beyer, Jason 
Black, Dean 
Blalock Jr, Ralph 
Brenny, Katie 
Brown II, Austin 
Brownback, Kyra 
Burtrum, Clay 
Campbell, Rob C. 
Carlson, Jodi 
Carter, Darren 
Church, Larry 
Coddington, Cliff 
Cook, Dan 
Cooksley, George 
Creighton-Smith, Kathy 
Dahl, Jeff 
Dalton, Jay 
Deering, Gary 
Downey, Barb 
Dunning, Steve 
Edwards-Callaway, Dr. Lily 
Ellis, Spencer 
English, Sabrina 
Evans, Morgan 
Fanning, Tom 
Ferguson, Jon C. 
Forester, Bryan 
Fountain Jr, Robert Q. 
Graham, Jamie 
Gwin, Mark 
Hanson, Steve 
Harms, Mark D. 
Hastings, Brad 
Hauck, Dana R. 
Hinman, Dan 
Hinz, Norman J. 
Horstman, Joe 
Jacobs, Spencer 
Chairman, ND 
Vice-Chairman, NE 
Nebraska Beef Council, NE 
Montana Beef Council, MT 
Utah Beef Council, UT 
Oregon Beef Council, OR 
Missouri Beef Industry Council, MO 
Wisconsin Beef Council, WI 
Texas Beef Council, TX 
Iowa Beef Council, IA 
North Carolina Beef Council, NC 
Region III - Federation, MN 
Texas Beef Council, TX 
Kansas Beef Council, KS 
Oklahoma Beef Council, OK 
Arkansas Beef Council, AR 
North Dakota Beef Commission, ND 
South Carolina Beef Council, SC 
Tennessee Beef Industry Council, TN 
Florida Beef Council, FL 
Iowa Beef Industry Council, IA 
Nebraska Beef Council, NE 
Montana Beef Council, MT 
North Dakota Beef Commission, ND 
Nevada Beef Council, NV 
South Dakota Beef Industry Council, SD 
Region VII - Federation, KS 
Kentucky Beef Council, KY 
Colorado Beef Council, CO 
Wyoming Beef Council, WY 
Hawaii Beef Industry Council, HI 
Idaho Beef Council, ID 
Oklahoma Beef Council, OK 
Kansas Beef Council, KY 
Texas Beef Council, TX 
Georgia Beef Board, GA 
Ohio Beef Council, OH 
Virginia Beef Council, VA 
Nebraska Beef Council, NE 
Kansas Beef Council, KS 
Region V - Federation, ID 
Arizona Beef Council, AZ 
Indiana Beef Council, IN 
Kansas Beef Council, KS 
Johnson, Jeff 
Johnson, Joe 
Johnson, Laurie 
Jones, Larry 
Jones, Scott 
Keith, Joel 
Kirkbride, Dianne 
Larson, Kristin M. 
Lastovica, Steven R. 
Lipscomb, Bill 
Lyman, Alan 
Malecek, Mark 
Martin, Nathan K. 
Martinell, Kiley 
McGregor, Scott 
Meyer, Angie 
Miller, Sallie 
Moorhouse, Ryan 
Moyer, Jaret 
Mugoitoio, Lou 
Niess, Scott 
Nissley, Darwin 
Oeschger, Dale 
Para, Liz 
Payne, Glenn 
Pendleton, Mark 
Price, Clark 
Rechel, Lucy 
Rehder, Steve 
Roe, Beverly 
Rudolph, Jeff 
Rush, Ivan 
Sanchez, Alicia 
Schrunk, Richard 
Scott, Brad 
Sixten, Bill 
Shelton, Dan 
Sherron, Dick 
Taylor, Glenn 
Temme, Douglas 
Terry, Don 
Thomas, Tracy 
Walsh, Becky 
Wehrbein, Buck 
Beef Council Revenue Seat, Nebraska Beef Council, NE 
Weltmer, Philip 
Wiley, Garry 
Wright, Thomas R. 
Wynn, Weldon 
Yeoman, Byron 
Idaho Beef Council, ID 
Mississippi Beef Council, MS 
South Dakota Beef Industry Council, SD 
Kansas Beef Council, KS 
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Kansas Beef Council, KS 
Wyoming Beef Council, WY 
Montana Beef Council, MT 
Texas Beef Council, TX 
Alabama Cattlemen's Association - Beef Council, AL 
Illinois Beef Association - Beef Council, IL 
Minnesota Beef Council, MN 
Missouri Beef Industry Commission, MO 
Montana Beef Council, MT 
Oklahoma Beef Council, OK 
Colorado Beef Council, CO 
Texas Beef Council, TX 
Beef Council Revenue Seat, Kansas Beef Council, KS 
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Beef Council Revenue Seat, Kansas Beef Council, KS 
Beef Council Revenue Seat, Nebraska Beef Council, NE 
Beef Council Revenue Seat, Kansas Beef Council, KS 
Beef Council Revenue Seat, Nebraska Beef Council, NE 
Beef Council Revenue Seat, Kansas Beef Council, KS 
Beef Council Revenue Seat, Nebraska Beef Council, NE 
Beef Council Revenue Seat, Kansas Beef Council, KS
Dear Fellow Producers,

The quality of the beef in the consumer meal experience has always been important to U.S. beef producers. Thanks to the Beef Checkoff Program, the industry’s commitment to quality has taken on an even greater sense of value over the past 25 years.

Because of checkoff-funded research, for instance, we as an industry are concentrating on attributes that consumers seek. We are doing a better job of identifying qualities that result in improved consumer satisfaction, enhanced industry practices and increased demand for beef, all the way from conception to consumption. This includes research to determine best practices for raising and caring for beef animals, as well as studies on the resulting products, such as tenderness, safety and proper cooking times for appropriate cuts, among others.

Those efforts, many of them managed by NCBA as a contractor to the Beef Checkoff Program, are making a difference, and it shows. The percentage of cattle grading USDA Choice and Prime is higher. Tenderness is improving. Research shows consumers are increasingly confident in the safety of, and happy with, the beef they buy.

The process of producing high quality beef that is valued by consumers, which can lead to greater beef demand, takes years. It starts in the genetic selection and careful breeding of animals. Handling and feeding play a part, as do environment and transportation. How we treat the product through harvest and processing, and what we do to make sure those in the beef supply chain and consumers purchase, store and prepare it properly, are also crucial.

Like all checkoff-funded programs, the quality-focused research, education and promotion efforts funded with your checkoff dollars stress results. We hope you find value in this information about what the checkoff has done to research beef quality and its relevance to consumers; to boost beef quality as consumers see it; and to show how it’s helping all of us improve in our efforts down the road.

Yours truly,

Jerry Effertz
Velva, North Dakota
Chairman, Federation of State Beef Councils

Federation Executive Committee:
Chair Jerry S Effertz, ND
Vice-Chair Dawn Caldwell, NE
Region I Bill Sexton, OH
Region II Mark Pendleton, NC
Region III Katie Brenny, MN
Region IV Weldon Wynn, AR
Region V Dan Hinman, ID
Region VI Lucy Rechel, NV
Region VII Barb Downey, KS
Rev. Seat Bradley W. Hastings, TX
Rev. Seat Jaret Moyer, KS
Rev. Seat Buck Wehrbein, NE

Federation members on the 2017 Beef Promotion Operating Committee are: (back row, left to right) Scott McGregor (Iowa), Buck Wehrbein (Nebraska), Brent Buckley (Hawaii), Gary Deering (South Dakota), Steve Hanson (Nebraska); (front row, left to right) Jerry Effertz, Federation Chair and BPOC Vice Chair (North Dakota) Dawn Caldwell, Federation Vice Chair (Nebraska), Kristin Larson (Montana), Laurie Munns (Utah), and Clay Burtrum Oklahoma.)
There is little question U.S. beef quality – and the consumer perception of beef quality – are improving. More carcasses are grading USDA Choice and Prime (see Figure 1). Tenderness for steaks continues to be favorable (see story on page 65), and favorability of those steaks among consumers continues to be high. Consumers also rate fresh beef highly when it comes to beef safety.

Cattle producers are doing their part in the effort to emphasize quality through good breeding and thoughtful, careful and determined animal care practices, as well as conscientious transportation. Their work over the past 25 years has been assisted by a checkoff-funded research called the National Beef Quality Audit (NBQA), which regularly provides a set of guideposts and measurements to help determine the
commitment could encourage greater beef demand, improve BQA to increase consumer confidence and enhance industry that those in the industry have a valuable story to tell. Utilizing While there's always room for improvement, data also show quarter century significantly improving the quality of its product. This research demonstrates the beef industry has spent the last difficult, but total lost opportunities for 2016 and previous audits, adjusted to 2016 prices, provide guidance as the industry looks for areas of improvement. In fact, the 2016 NBQA found that the number of blemishes, condemnations and other attributes that can have an impact on animal value remain small, and industry efforts to address these issues since 1995 have been generally encouraging. In-plant research also showed the incidence of bruising was higher in the 2016 study than in 2011, but the severity of bruising was less. Fewer cattle had brands, and horns were less prevalent. The mobility of cattle going into the harvest facilities was excellent: 97 percent of cattle walked easily and normally, with no apparent lameness. Almost none of the hanging carcasses (0.5 percent) had visible injection site lesions – of particular interest, since injection site lesions were among the most critical issues when the audits were first conducted in 1991. While the size of carcasses has increased, there has also been a significant increase in the frequency of USDA Choice and Prime carcasses. The majority of carcasses qualifying for Select were in the top half of the grade.

A review of instrument grading in the 2016 NBQA provided results similar to grading observed through in-plant research, giving confidence to the increasingly prevalent use of instrument grading in the industry. The trends echoed those seen in 2011.

Cows and Bulls – Often Overlooked

Cows and bulls are the foundation of our cattle herds. More than that, though, cull animal sales in the industry now contribute up to 20 percent of operational gross revenue for both beef and dairy operations. The reasons to market breeding animals for beef in the dairy and beef industries are varied, and it is important the industry understand the factors that lead to improved quality and minimized economic losses in this important component of its beef market.

### Multiple Assessments

The 2016 NBQA delivered data and information through industry-wide face-to-face interviews, extensive in-plant research, and a strategy session attended by individuals representing every sector of the beef industry, who considered the results and discussed implications. Each of the elements contained helpful insight into those issues that impact how those in the beef supply chain and consumers view quality. In the face-to-face interviews with supply chain participants, food safety was a quality factor. Many respondents, in fact, said it was implied as a requirement of doing business. Other issues included size consistency of carcasses, eating satisfaction and an unfamiliarity with Beef Quality Assurance (BQA) among packers, processors, retailers and food service operators interviewed.

Separate in-plant research efforts were conducted at harvest facilities that process steers and heifers, and cows and bulls. Based on the results of the in-plant and interview research, beef industry participants at a December Strategy Session focused on three areas: Food Safety and Animal Health, Eating Quality and Reduction of Variety, and Optimizing Value and Eliminating Waste, allowing them to focus proposed actions on industry needs.

Like those in the face-to-face interviews, session participants were committed to creating greater education and communication of BQA and the principles it champions to the supply chain and consumers. They said increased certification of those who follow BQA practices could enhance respect for both the program and the industry.

### Industry Opportunities

Each NBQA identifies lost opportunities for the industry, suggesting areas producers and others could make improvements to increase profitability. Precise calculations are difficult, but total lost opportunities for 2016 and previous audits, adjusted to 2016 prices, provide guidance as the industry looks for areas of improvement.

This research demonstrates the beef industry has spent the last quarter century significantly improving the quality of its product. While there’s always room for improvement, data also show that those in the industry have a valuable story to tell. Utilizing BQA to increase consumer confidence and enhance industry commitment could encourage greater beef demand, improve industry harmonization and benefit every audience.
factors that lead to improved quality and minimized economic losses in this important component of its beef market.

As with its NBQA for steers and heifers, the industry has conducted in-plant research through its Beef Checkoff Program to assess the quality status of this element of the beef chain regularly over the past two decades. The National Beef Quality Audit for cows and bulls, managed by NCBA as a contractor to the beef checkoff, is a robust look at ways the industry raises cows and bulls for beef and brings them to market. Through this research the industry seeks to assure the lives of these animals reflect the highest industry standards for beef stewardship and production.

Before 2016, the most recent Cow and Bull Audit had been conducted in 2007. The research conducted in the most recent study shows the industry is making progress. Overall, the 2016 NBQA for cows and bulls demonstrated there has been progress made in the sector since 2007, including noticeable improvements as the animals entered the harvest facilities. This included better soundness of animals, a reduction in injection site lesions through the years, and an increased percentage of cattle that had no visible defects.

The research also suggested future research should be focused on:
- Appropriate management of cull cows and bulls to increase muscle condition before harvest;
- culling animals before physical defects are too severe and cause animal welfare concerns or carcass condemnation; and
- ways to eliminate carcass bruising on the farm, in transport and at the packing facility.

Additional emphasis in extensive education and beef quality assurance programs can further propel the momentum of the cow and bull industry.

The full NBQA executive summaries for steers and heifers and for cows and bulls, along with more information about the 2016 NBQA and previous audits, can be found on the Beef Quality Assurance website at www.bqa.org.

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<td>-$53.36</td>
<td>-$63.28</td>
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**Figure 2. Frequency Distribution of Cattle that were not Lame**

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<th>Year</th>
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<td>2007</td>
<td>60</td>
</tr>
<tr>
<td>2016</td>
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**Fund Fuels Projects to Boost Beef Demand**

Established in 2006 by the Federation of State Beef Councils as a “state helping state” program, the Federation Initiative Fund invested $48,895 in fiscal year 2017 through its Federation Initiative Fund to assist state beef councils in areas of the country with high consumer populations. Nine state beef councils conducted nine projects that focused on Team BEEF, enhancing consumer influencer outreach or hosting immersion events highlighting nutrition and health, culinary, beef communications or production. The chart below shows the Councils and programs that were funded.
Favorable tenderness ratings for beef steaks, which have improved significantly since 1990, have remained steady over the past five years, despite environmental and financial challenges that could have derailed its progress. The ratings were confirmed by the beef checkoff-funded 2015/2016 National Beef Tenderness Survey, which was conducted at Texas A&M University. The checkoff-funded research has surveyed beef tenderness regularly since 1990.

Potential challenges to beef quality over the past ten years, including drought, fluctuating supply and rising input costs, could have put tenderness gains in jeopardy. Nevertheless, the tenderness of the beef being produced in the United States has not only remained steady, but often improved. The research suggests the industry continues to deliver to consumers when it comes to tenderness.

Reasons for the improvement included increased aging time, longer and slower chill rates and more branded programs at retail. In 2005/2006, about 47 percent of retail cuts were marketed through branded programs designed to guarantee certain quality traits, including tenderness.

While fewer branded products were surveyed compared to a decade ago, results from the 2015/2016 survey found that, as with the 2010/2011 survey, most steaks were considered tender. Warner-Bratzler shear force values, an objective measure of tenderness, were consistent with values noted five years ago for ribeye, top blade, top loin and sirloin steaks. Similar to previous surveys, the 2015/2016 survey indicated a need for more industry focus on tenderness and increasing the overall rating for cuts from the round. Because the survey shows rounds are sometimes not aged sufficiently, and consumer understanding of the different cooking methods necessary for round cuts is limited, enjoyment of cuts from this primal could be improved, the study suggested.

However, the research confirms that all cuts aren’t created equal. While they have a wonderful flavor profile, cuts from the round remain an industry tenderness challenge. Future focus by the industry could include a collective effort to utilize optimal aging practices as well as more support for extensive consumer cooking education for round cuts.

With tenderness goals generally being achieved across many cuts, additional focus and research could be placed by the industry on other quality traits, such as flavor.
State Councils Join in Jerky Day Celebration

The Beef Checkoff Program identified a novel way to help celebrate Beef Jerky Day June 12, with some powerful support from state beef councils. That day, state beef council staffs delivered beef jerky bouquets created by the beef checkoff to news personalities at television outlets in many of the country’s top media and consumer markets in their states.

The bouquets, in custom “Beef. It’s What’s for Dinner” vases, were delivered to 115 television stations in the top 30 U.S. markets and others. They were accompanied by beef information that included tips on how beef jerky is the “ultimate snack hack” for consumers.

The project allowed the industry to help promote a powerhouse protein snack in a unique and promotable way. Beef jerky is a popular, low fat and high-quality protein that has many benefits, and the bouquets provided broadcasters with something fun and interesting to talk about on air.

The partnership between state beef councils and the Beef Checkoff Program gave the councils another opportunity to communicate with their target media outlets, and was a win-win for state beef councils and the entire beef industry. With the constant demand for content, and the increased noise in the media, it’s helpful to have innovative, creative pitches that increase the visibility for beef.

The national beef jerky letter to media representatives included five reasons beef jerky is the ideal snack hack, including:

1. It helps fuel kids through the final bell, keeping them attentive and ready to learn;
2. It helps you avoid the workday slump, as a healthier salty snack option;
3. It gives unexpected post-workout benefits as “nature’s protein bar”;
4. It’s a fun way to help kids celebrate a win or rebound from a loss, stamping out “hangry”; and
5. It lets you stay lively on the hiking trail.

There are many checkoff-supported channels for helping communicate quality and other beef information to those in the beef supply chain who need it. Beef University, for instance – Beef U, for short – is a free online training program that is aimed at those who market beef to consumers and is focused on the latest information and research on marketing and selling beef. The checkoff-funded program was revamped for 2017, and captures the latest data and industry insights on key topics in a new, condensed, more user-friendly format.

The course was developed for supply chain partners by NCBA, a beef checkoff contractor, to provide training and professional development resources on such topics as raising beef, nutrition and health, beef basics and cuts and the modern consumer. In a nutshell, the program educates and trains employees on marketing and selling beef, with the understanding that an informed and knowledgeable staff – particularly those who interact directly with consumers – leads to improved customer service and more beef sales.

For more information on this market-building program, go to www.beefu.org.
Responding to the Cattle Markets

In fiscal 2017 the Federation of State Beef Councils stepped up in response to a frustrating cattle market, dipping into its reserve funds to support national and international promotion programs that would help increase demand for beef. The Federation allocated more than $1.2 million from its reserve funds during the year for this effort, conducted during a time of high protein production that put significant pressures on the cattle market.

One of the efforts was a campaign by NCBA, a contractor to the Beef Checkoff Program, to drive nationwide sales of fresh beef at retail. That promotion is based on a program called Ibotta, a mobile shopping app with a subscriber rate of 22 million mostly-millennial consumers. The partnership gave consumers the chance to engage with educational information about beef and then unlock a small cash-back rebate for any ground beef product at any store, nationwide. The Beef Checkoff Program paid for the rebates of verified sales.

Results from the effort significantly surpassed standard Ibotta campaigns. The redemption rate for ground beef was nearly 40 percent; the average Ibotta redemption rate is 23 percent. More than 1.45 million consumers unlocked the beef rebate and saw beef content, such as videos, recipes and messages, and more than 576,000 redeemed the rebates. In just four weeks more than 631,000 pounds of ground beef were sold.

Many state beef councils contributed additional funding to promote the campaign to consumers in their markets. They helped drive traffic to the app and create broader visibility for beef. The total value of the Ibotta campaign is estimated to be more than $4.4 million.

A significant part of the Federation allocation was an international promotion conducted by the U.S. Meat Export Federation, another checkoff contractor, which helped move more than a million incremental pounds of beef in Japan and Korea. The effort included a push to have chilled U.S. beef replace Australian beef at all Costco outlets in Korea – which came to full fruition in May 2017. This was accomplished through USMEF trainings, sampling demonstrations, regular visits and meetings to build relationships, and more. It means an incremental increase of over 33 million pounds, which will increase the total U.S. market share in Korea by about 3-4 percent.

Funds for this effort came from state beef council boards that voluntarily remit part of their half of the $1-per-head beef checkoff to be used at the national and international levels. Recognizing that states with high beef production don’t always have large population centers, state board members understand the benefits of spending checkoff dollars where most beef consumers live.
# 2017 Federation Expenses

For the year ending 09/30/2017

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<td><strong>Total Revenue</strong></td>
<td>35,726,464</td>
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<td>46,631,145</td>
<td>23%</td>
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| **BPOC Program Expenses** |          |            |             |                    |
| Promotion               | 7,623,880 | 2,233,590  | 9,857,470   | 23%                |
| Research                | 9,115,908 | 1,912,506  | 11,028,414  | 17%                |
| Consumer Information    | 7,154,112 | 1,440,108  | 8,594,220   | 17%                |
| Industry Information    | 4,579,191 | 821,446    | 5,400,637   | 15%                |
| Foreign Marketing       | 7,201,973 | 2,449,672  | 9,651,645   | 25%                |
| **Total BPOC programs expenses** | 35,675,064 | 8,857,322  | 44,532,386  | 20%                |

| **Non-BPOC Program Expenses** |          |            |             |                    |
| Federation Relations (a)     | —         | 1,733,049  | 1,733,049   | 100%               |
| Customer Service             | —         | 505,161    | 505,161     | 100%               |
| Governance (b)               | —         | 697,727    | 697,727     | 100%               |
| Other                        | 51,400    | —          | 51,400      | 0%                 |
| **Total Non-BPOC program expenses** | 51,400    | 2,935,937  | 2,987,337   | 98%                |

| **Total expenses**          | 35,726,464 | 11,793,259 | 47,519,723  | 25%                |

| **Net Use of Reserves (c)** | —         | ($888,578) | ($888,578)  | 100%               |

(a) Federation Relations includes expenses associated with services and materials provided to State Beef Councils.

(b) Governance includes expenses associated with meetings and travel for NCBA’s Officers, Board, Executive Committee and other committee members charged with governing the association. Governance costs are allocated to Federation and Policy divisions accordingly.

(c) Use of reserves relates to remaining Federation expenses required to complete FY17 multi-year programs and supplemental domestic and foreign marketing efforts.
### Summary of State Beef Council Investments

For the year ending 09/30/2017

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