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BUSINESS

NOV. 2023 MONTHLY

Iowa Agriculture Feeds the World



STORY ON PAGE 20

CALENDAR OF EVENTS

2023

DECEMBER 7
Connecting Statewide
Leaders
FAIRFIELD

DECEMBER 7-8
Leadership Iowa
Session: Manufacturing
FAIRFIELD

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“EVENTS”
TAB FOR DETAILS
ON ALL UPCOMING
EVENTS.**

2024

JANUARY 10
Legislative Briefing and Reception
DES MOINES

JANUARY 10-12
Leadership Iowa Session: Government
DES MOINES

MARCH 6
Business Day in Des Moines
DES MOINES

MARCH 7
Connecting Statewide Leaders
DUBUQUE

MARCH 7-8
Leadership Iowa Session: Healthcare
DUBUQUE

INSIDE

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- Brown & Brown | Des Moines | www.bbinsurance.com
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- The Overture Group Iowa, LLC | Cedar Rapids | www.theoverturegroup.com

Learn more about how ABI membership could benefit your company by visiting www.iowaabi.org/membership/why-abi.

FROM THE CHAIR:

ABI's Annual Events Showcase Excellence in Iowa

We hope you enjoy this edition of ABI's Business Monthly, which features some great ABI members that help make Iowa agriculture work... and work well.

Last month, ABI held the Iowa Manufacturing Conference at the FFA Enrichment Center in Ankeny. The annual conference, geared towards manufacturers of all sizes, provided significant content for participants. Great speakers and extensive networking marked the day with ABI members from across the state.

A highlight of the agenda was the annual Legends in Manufacturing Awards, hosted by ABI's Elevate Advanced Manufacturing program. This event has established itself as one of the premier gatherings for manufacturers in our state. It's a time when we celebrate and acknowledge the contributions of ABI member companies and their visionary leaders. If you couldn't attend, you missed out on one of

the year's most remarkable events. Make your plans now to be a part of this event next fall.

Also last month, the ABI Foundation held the first of eight sessions with the 42nd class of Leadership Iowa. LI is the nation's oldest statewide leadership development program and well over a thousand alumni are now working to make their companies and their communities better.

As these events illustrate, ABI works all year long to advance an agenda that provides value to your business. Growing your business and growing Iowa communities is the top priority for ABI.

Finally, and in keeping with fantastic events, the 2024 ABI Taking Care of Business Conference is coming your way June 4-6 in Davenport. Watch for more information soon and make your plans now to attend. You will be glad you did! **ABI**



Chad Reece
ABI Vice Chair
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CAPITOL BUSINESS:

Workforce, Taxes and Regulatory Reform Top ABI's 2024 Agenda

Hundreds of ABI members gathered over the course of the summer and fall to establish our priorities and policies for the coming year. Our grassroots process ensures that members can make their voices heard in what the association stands for. The ABI public policy staff will be seeking to achieve success in three priority areas: workforce, taxes, and regulatory reform.

Workforce

Workforce encompasses topics such as childcare, workforce housing, funding for programs that allow Iowans to up-skill and drug and alcohol testing in workplaces.

The Legislature approved, and Governor Kim Reynolds has signed several bills related to childcare over the last few years whether that's eliminating the cliff effect for employees, expanding income thresholds for tax credits for families or increasing reimbursement rates for childcare providers. Policy solutions like these and hundreds of millions of dollars in funding have made childcare more affordable and available. The workforce housing tax credit program has been reformed and expanded due to significant demand and return on investment. Now

more monies are reaching less populous areas of the state, which will increase the vitality of rural precincts. Tens of millions of dollars have been delivered to Future Ready Iowa programs and other resources that support Iowans in their quest to gain more skills and provide a better life for themselves. One thing the Legislature hasn't addressed yet is drug and alcohol testing reform, which will be a specific priority of ABI next year.

Taxes

Perhaps no other state in the country has overhauled their tax system in such a pro-growth manner as Iowa has done since 2018. Three major income tax bills have been signed into law since that point in time. A historic, \$100 million property tax cut bill was approved in 2023 as well. In 2018, Iowa had a progressive, nine bracket individual income tax system with a top rate of 8.98%. Iowa also had a graduated top rate of 12.0% for corporations. By 2026, Iowa will have a flat individual income tax rate of 3.9% with corporations set to have a flat tax rate of 5.5% in a few years. To demonstrate the transformation even further, the nonpartisan Tax Foundation ranked Iowa's business tax climate as

46th prior to the 2018 reforms. Once the latest tax bill from 2022 is fully enacted, we'll move to 15th in their rankings.

Leading policymakers have indicated they are not finished in addressing individual and corporate income tax rates as well as property taxes. ABI fully expects legislation to be considered in 2024 that addresses these issues once more.

Regulatory Reform

This past session, policymakers approved the most significant overhaul of how our state government functions in decades. The law streamlined cabinet level agency directors from 37 to 16, which puts us in line with surrounding states. The overhaul will ultimately save taxpayers \$200 million. The law also included a review of existing boards and commissions, which recently concluded. ABI is supporting the idea of making changes to the Property Assessment Appeals Board (PAAB) to ensure the board returns to its original mission of being an effective resource for property taxpayers.

ABI has a full agenda ahead of us in 2024. ABI public policy staff will be working hard to ensure that our priorities are acted upon in the spring. **ABI**



Brad Hartkopf

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FROM THE FOUNDATION:

Support Iowa's Future this Giving Tuesday

GivingTuesday is a global generosity movement, unleashing the power of people and organizations to transform their communities and the world. The annual day of giving will happen on November 28, 2023.

This year, you can directly contribute to the future of Iowa by donating to the Iowa Association of Business and Industry (ABI) Foundation. Funds raised during this campaign will go towards Business Horizons and Leadership Iowa University to offset costs such as transportation, lodging, meals, educational materials, etc. Both annual programs aim to showcase the strength of business and industry in Iowa, connect young people with mentors and resources, and foster a better understanding of opportunities in the state.



These leadership programs play a crucial role in identifying, nurturing, and developing emerging leaders. By contributing, individuals can support the development of capable, ethical, and forward-thinking leaders who can address the complex challenges of the future.

Thank you for being part of the ABI Foundation and the future of Iowa. Together we can build a brighter future.

To learn more about each program or donate this Giving Tuesday, visit www.IowaABIFoundation.org.

About Business Horizons

Five-day innovation simulation bringing students (grades 9-12) of all experience levels from across the state together to gain a better sense of how their skills connect to the business world and the real world.

Participant details: 60+ students representing over 35 high schools each program

About Leadership Iowa University

This program is designed to bridge the gap between college and career by connecting participants with a network of individuals to aid in their professional and personal development.

Participant details: 25+ participants representing over 10 colleges and universities each program **ABI**



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Q&A: The Value of Valuation

Much like an umbrella, a business valuation is something you don't think about until you need one. It is typically required when a business is going through a transition. Below are some common questions about business valuations should you ever find your business in transition and in need of a valuation.

Why would I need a business valuation?

Business valuations play a pivotal role in a multitude of scenarios, spanning from mergers and acquisitions to investment decisions and strategic planning. Below are some reasons why your company might require a business valuation.

- **Estate Planning and Wealth Transfer** - Business valuations are crucial for estate planning, especially when transferring ownership or assets to family members, heirs, or trusts. A valuation helps determine fair value for tax and inheritance purposes.
- **Buying or Selling a Business** - In M&A transactions, both the buying and selling parties benefit from having a valuation. This helps the parties negotiate a fair purchase price.
- **Shareholder or Partnership Disputes** - In cases of disputes among shareholders or partners, a business valuation can help determine the fair value of an ownership interest. This can be used to resolve conflicts or buy out departing owners.
- **Divorce Proceedings** - During divorce proceedings, spouses may require a business valuation to determine the value of the business for equitable distribution of assets.

My friend told me my business was worth five times earnings. Is he right?

Your friend is likely referencing a rule of thumb. These are informal, general guidelines or benchmarks used as a quick and straightforward method for estimating the value of a business. These rules are typically based on common industry practices, historical transactions, or multiples derived from financial metrics. While they can provide a rough estimate of your business's value, it's essential to understand their limitations and use them cautiously.

Rules of thumb provide only rough estimates and do not consider the unique characteristics of a particular business, such as its growth prospects, competitive advantages, or risk factors. Additionally, different rules of thumb can yield widely varying estimates, leading to inconsistencies in valuation.

So how is the value of my business determined?

The process of determining the value of a business is far from a one-size-fits-all endeavor. It involves a combination of quantitative methodologies, such as financial modeling and data analysis, with qualitative considerations such as a company's market position, growth potential, and operational efficiencies.

There are three approaches to valuation: the Asset-based Approach, Income Approach, and Market Approach.

The Asset-based Approach values a business by calculating the net value of its assets minus its liabilities. Most operating businesses are worth more than their assets, so this approach is most suitable for companies with significant tangible assets like real estate or machinery.

The Market Approach compares the subject business to similar businesses that have recently been sold. It relies on the principle of finding comparable companies and using their valuation multiples (ex: price-to-earnings ratio) to estimate the subject business's value. Selecting truly comparable companies or transactions is critical. Factors such as industry, size, growth prospects, risk profile, and geographic location must align reasonably well with the subject company. It is common to use the Market Approach in conjunction with other valuation approaches to arrive at a more reliable value estimate.

The Income Approach estimates the value of a business by assessing its future income or cash flow potential. The value of a business is directly related to its ability to generate earnings or cash flows in the future. This approach is usually the most relied upon in valuing an operating business. A Discounted Cash Flow analysis is a widely used method in the income approach. It involves estimating the future cash flows a business is expected to generate and then discounting those cash flows back to their present value using a chosen discount rate. The accuracy of the income approach depends on the quality of the cash flow projections. Projections should be realistic, based on historical performance, industry trends, and a thorough understanding of the business.

Do I add the value of real estate to the value of my business?

If your business owns the real estate it operates from, the value of the real estate is typically included in your overall business valuation. This is especially true if the real estate is integral to your business's operations, such as a manufacturing facility, retail store, or office space.

In some cases, a business may own real estate that is not directly used in its operations but is held as an investment. In such cases, the value of the real estate would be considered separately and added to the business's operating value.

If an asset is owned by your company and is used in your business to generate cashflow, its value is included in the value of operations. You are not allowed to double count the value of the asset and the benefit it provides. In other words, you can't have your cake and eat it too.

How do you account for intangible assets in a business valuation?

Intangible assets are assets that lack a physical presence but hold value for a business. Examples include patents, copyrights, tradenames, and goodwill. The valuation of intangible assets can be complex and subjective. While it is possible to value individual intangible assets separately, most business valuations do not separate them out. Similar to real estate, the value of intangible assets is accounted for in the business valuation. They are a crucial component of a company's overall worth and can significantly impact a business's overall value by contributing to the company's competitive advantage, revenue generation, and growth potential. Intangible assets can also mitigate risk by providing a competitive edge or protecting a business's market position.

How can I increase the value of my company?

The most straightforward ways to increase the value of your company are by increasing revenue and controlling costs. Focus on growing sales and diversifying revenue streams. Explore new markets, expand product lines, or offer additional services to attract more customers. Implement cost-saving measures to improve profitability. This may involve renegotiating supplier contracts,



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optimizing inventory management, or streamlining operations. Looking at this another way, if your business is valued at five times earnings, every dollar you drop to the bottom line will increase your valuation by five dollars.

Other ways to increase the value of your company include the following:

- **Working Capital Optimization** - Efficiently manage working capital by balancing the levels of current assets and liabilities. Avoid overstocking inventory and expedite accounts receivable collections.
- **Intellectual Property Protection** - Safeguard intellectual property assets, such as patents, trademarks, and copyrights. Protecting these assets can increase their value and generate licensing income.
- **Customer Contracts and Retention** - Secure long-term customer contracts or subscription agreements. Predictable revenue from recurring customers can enhance your business's value.
- **Market Expansion** - Explore new markets or geographic regions to expand your customer base. Develop marketing strategies tailored to target audiences in those areas.
- **Customer and Client Relationships** - Nurture strong customer relationships to encourage repeat business and referrals. Happy and loyal customers can enhance your company's reputation and long-term prospects.

Increasing the value of a company often requires a long-term perspective and a commitment to continuous improvement. Business owners should regularly assess their strategies and adapt to changing market conditions to maximize the value of their business over time. **ABI**

EXPERT ADVICE:

Cultivating Safety: OSHA Guidelines for Agricultural Operations

Agriculture is a vital sector of the nation's food chain that plays a significant role in our daily lives as Iowans. However, the agricultural industry poses unique safety challenges, making it crucial to prioritize worker well-being. The Occupational Safety and Health Administration (OSHA) provides comprehensive guidelines to ensure safety in agricultural operations, safeguarding workers from potential hazards.



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1. Understanding the Hazards:

Agricultural activities involve a diverse range of hazards, including machinery operation, chemical exposure, working at heights, and unpredictable weather conditions. OSHA emphasizes the identification and evaluation of these hazards, as it is the foundation for developing effective safety programs. Conducting regular site assessments and hazard analyses enables employers and workers to proactively mitigate risks, promoting a safer working environment.

2. Machinery and Equipment Safety:

Farm machinery is integral to agricultural operations, but it also presents significant risks. OSHA standards provide guidelines for the safe operation, maintenance, and guarding of machinery to prevent injuries. Proper training, equipment inspections, and the use of personal protective equipment (PPE) such as helmets, goggles, and gloves are essential to reduce the likelihood of accidents and protect workers from machinery-related hazards.

3. Chemical Handling and Storage:

The use of pesticides, fertilizers, and other chemicals is common in agriculture. However, mishandling or improper storage of these substances can have severe health consequences for workers. OSHA guidelines emphasize proper labeling, storage, and handling procedures for hazardous chemicals. Employers are responsible for providing adequate training on chemical safety, including information on potential risks, proper use, and the correct PPE to use when working with these substances.

Maintaining safety in agriculture is crucial for the well-being of workers and the sustainability of the industry. By adhering to OSHA guidelines and implementing robust safety programs, agricultural operations can create a culture of safety and reduce the occurrence of accidents and injuries. Prioritizing worker safety not only protects human lives but also contributes to the overall productivity and success of the agricultural sector. Please consult with counsel if any of these specific OSHA standards apply to your business operation. ABI

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COVER STORY FROM PAGE 15

Iowa Agriculture Feeds the World



An economic impact study conducted in 2019 by Iowa State University's Dermot Hayes showed that Iowa Select Farms created more than 10,900 direct, indirect and induced jobs per year. Photo courtesy Iowa Select Farms.

BY EMERY STYRON

"We are a business that is 100% Iowa-rooted," said Jamie Horbach, public affairs director for Iowa Select Farms. "We can't get up and move our 800 farms, 1,200 employees and our 650 contractors. We're very proud because we know, based on research, that where livestock grows, so do communities."

The Iowa Falls-based company, owned by third-generation Iowa farmer Jeff Hansen and his wife, Deb, is the fourth largest pork producer in the U.S., marketing more than 4 million hogs and 1.5 billion pounds of pork per year. "We're very, very proud to feed the world," said Ms. Horbach.

Iowa Select is equally proud of its support for rural communities and its role as one of the leading economic engines for outstate Iowa.

"When people are talking about rural Iowa and the population decline, we find that where Iowa Select is located, and livestock production in general, we're able to generate jobs in these rural communities and support other rural businesses, too," Ms. Horbach said.

An economic impact study conducted in 2019 by Iowa State University's Dermot Hayes showed that Iowa Select Farms created more than 10,900 direct,

indirect and induced jobs per year. The direct jobs included nearly 7,500 people who rely on the company for their primary income, including employees, contract growers, contracted farm managers, manure applicators, livestock haulers and others.

Nearly 600 indirect jobs are supported in industries such as feed manufacturing, propane delivery and equipment supply. Some 2,900 indirect jobs are supported in businesses that benefit from the patronage of those directly and indirectly employed by Iowa Select Farms. Those include workers at businesses such as restaurants, gas stations, grocery stores and other retailers.

"If you take one of our truck drivers, he's stopping at a local gas station, filling up on gas, grabbing coffee or whatever you at local c-store, from there hitting the road," said Ms. Horbach. Other Iowa businesses, including many owned by ABI members, are impacted, she added. That includes companies whose employees "keep those roads sturdy and strong for our people and maintain trucks.

"It can become a full circle. They are bringing their loads to either of our largest customers, JBS and Tyson, maybe stopping at a local feed supplier, mill or co-op. We're kind of everywhere. You

can tell because all of our cars and trucks are branded."

Iowa Select's wide array of employees, from animal caretakers to truck drivers to veterinarians and environmental specialists, value "doing the right thing," said Ms. Horbach. "It's hard to find an employee who won't step in and do what needs to be done. We're all committed to the company's success. We take a lot of pride in being able to feed the world."

Humble Beginnings

Married after high school in 1976, Jeff and Deb Hansen converted an old barn at his father's farm for a farrowing house, starting with three sows bought at a local sale barn. As the herd swelled to 50 sows, the Hansens modernized their farm with better equipment, including raised floor decks. They began selling the flooring system to other producers and founded Modern Hog Concepts, "an equipment supply company that eventually grew to include manufacturing facilities and offering producers across the Midwest custom or turnkey building packages," according to a company history.

The Hansens founded Iowa Select Farms in 1992 after getting financing and a contract for 10,000 sows. The

business has grown to include gene transfer centers, multiplication, gilt development, sow, nursery and wean-to-finish farms with an emphasis on animal health, nutrient management and environmental stewardship, according to company literature. Environmental efforts include supplying neighboring crop farmers with manure to replenish soil fertility and utilizing Geographical Information System software to view all farms receiving nutrients to ensure manure is applied responsibly and in compliance with state regulations.

Hansen Foundation Gives Back

The Hansens established the Deb and Jeff Hansen Foundation in 2006 to further support the communities where their employees live and work. "We're so proud of what we do for our communities through our foundation," said Ms. Horbach.

In the last year, the foundation raised more than \$2 million to invest back into communities where Iowa Select Farms are located. The foundation focuses on three areas — child and family support, military and childhood cancer. In 2022, the child and family support included serving power snacks to 27,717 children

in 113 schools, 20,000 families with a Christmas meal and 85 food pantries assisting 8,400 families. Pork care packages served more than 14,000 military families. Cancer care included a \$300,000 donation for the Jeff and Deb Hansen Home for Hope renovations and gifts for families and cancer patients.

Ms. Horbach likes to talk about the “unforgettable opportunities” offered by the Children’s Cancer Connection’s Iowa Adventure program. Families of children with cancer receive a special free weekend at Iowa attractions of their choice such as the state fair, Lake Okoboji and visits to apple orchards.

A 501c3, the Hansen Foundation is funded by gifts from Jeff and Deb Hansen, employees, contractors, owner-operator truck drivers for Iowa Select Farms and other friends and sponsors. Ms. Horbach invites ABI members to join forces with the foundation “to keep Iowa strong.”

Flexible Yet Focused

As shifts in public attitudes and changes to agriculture such as California’s Proposition 12 affect the way farming is done, Iowa Select Farms counts itself “lucky to be in a really great ag-friendly state,” Ms. Horbach said, praising “the awesome political climate we have here, the way Iowans in general continue to value and celebrate agriculture.”

“At the local level, we value working with our city councils, supervisors, DNR, all these entities that really help foster this great community and environment for livestock production.”

The company’s farms are in the process of becoming compliant with “Prop 12,” which, among other regulations, requires producers who want to access California’s markets to provide at least 24 square feet of floor space per breeding pig in hog confinements.

“As a company we will continue to gauge what consumers demand,” noted Ms. Horbach. Preliminary indications are that pork prices are rising in California, which represents 13% of the national pork market, but demand isn’t matching that, she said. “As an industry, it will be interesting to see what happens there.”

Other challenges include higher prices for feed ingredients like corn and soybeans, along with skyrocketing labor costs. In the new year, Iowa Select hopes to see inflation moderate, the economy stabilize and free trade agreements negotiated to expand the market, especially in Asian countries where pork is the number one food.

Ultimately, “consumers call the shots,” and Iowa Select Farms will remain focused on what it does best, said Ms. Horbach. “All we do is produce pork. Our pigs are hungry. We have to keep them fed and happy.” ABI



With 800 farms, 1,200 employees and 650 contractors, Iowa Select Farms markets more than 4 million hogs and produces 1.5 billion pounds of pork in a year, making it the fourth largest pork producer in the U.S. Photo courtesy Iowa Select Farms.

Ag A Major Contributor To Iowa’s Economy

Agriculture remains a key driver of Iowa’s economy, supporting about 1 in every 5 jobs across the state and accounting for \$121.1 billion in output in 2017, according to the 2019 Iowa Agricultural Economic Contribution Study, which is based on the 2017 Census of Agriculture, USDA/NASS datasets, and the IMPLAN modeling system.

The study’s other key findings for Iowa agriculture in 2017:

- \$39.7 billion in total value-added (a slight decrease from about \$39.9 in the 2014 study)
- 399,631 jobs, representing almost 20% of total Iowa jobs, although ag-related jobs dropped from 418,771 in 2014
- The \$121.1 billion in output (sales) jumped from \$112.2 billion in 2014.
- \$22.2 billion in household income, up from \$24.4 billion in the 2014 study.

Of the \$39.7 billion in total value-added and 399,631 jobs from the agriculture industry and related economic activity:

- Crop production and related industries contributed \$11.1 billion in value-added and 111,965 jobs (compared to 183,379 in the 2014 study).
- Livestock production and related industries contributed \$15.8 billion in value-added and 185,985 jobs (compared to 122,764 in the 2014 study).
- Other agriculture and related industries contributed \$12.9 billion in value-added and 101,681 jobs (compared to 112,627 in the 2014 study).

Other data from the 2017 USDA Census on Agriculture:

Iowa is home to 86,104 farms, varying in size from 10 to 2,000 acres. Agriculture contributes one of every three dollars to Iowa’s economy.

Iowa Farm Statistics

- 98% family farms
- 355 acre average size
- 2,583,967,870 bushels of corn
- 553,576,064 bushels of soybeans
- 3,950,920 cattle
- 938,818 beef cows
- 223,579 dairy cattle
- 22,730,540 pigs
- 56,554,774 layers
- 4,793,219 turkeys

No. 1 state in nation for hogs, corn, layers and eggs

Top 10 state for number of farms, soybeans, cattle, turkeys

More recent figures are contained in the 2023 Feeding the Economy Study, sponsored by many large trade groups including American Farm Bureau Federation, American Soybean Association, Corn Refiners Association, International Dairy Foods Association and others.

That study highlights the total impact of agriculture from the farm through the supply chain, so it includes upstream and downstream activity related to Iowa agriculture, such as when a farm equipment retailer hires new employees because farmers are buying more tractors.

Iowa agriculture is responsible for a direct economic output of \$88.3 billion and more than 315,000 jobs contributing \$17.57 billion in wages, according to the Feeding the Economy Report, but when upstream and downstream factors are considered, Iowa agriculture supports 801,000 jobs and a \$204 billion economic output. Iowa agriculture also has an export value of \$6.56 billion, according to the report.

WHAT'S TRENDING:

Higher Beef Prices Are Not Going Away Anytime Soon

Persistent high feed prices and ongoing drought in the Southern Plains and Midwest have significantly reduced America's beef cow herd size over the last several years. This has led to a lower supply of market ready beef and higher prices in all aspects of the industry, especially at the retail and food service levels.

According to data from USDA's Agricultural Marketing Service (AMS), price comparisons for most beef carcasses along with beef wholesale cuts are 20-30% higher compared to 2022. The only way for the beef prices to return to normalized levels would be to increase the breeding herd significantly. Given length of gestation of beef cattle and reproduction rate, no increases in herd size should be expected for at least the next three years.

Any business that utilizes beef products, including your local restaurant, healthcare facility, grocery store or butcher shop will experience significant margin com-

pression because of higher raw material costs for the foreseeable future. It will be essential for these business models to either raise prices to offset raw material cost increases, find lower cost alternatives within the available supply of beef, or switch to a lower cost protein source.

Fortunately for beef lovers, we have a lot of variety and flexibility when it comes to merchandising the beef carcass. For instance, a restaurant may change their menu from ribeye steaks to New York strip steaks. According to USDA AMS, this simple change would equate to 30-40% lower raw material cost for those comparable items. Further, it may be time to investigate portion control options such as pre-made patties compared to bulk ground beef to help maintain cost per serving and lost yield. One other option for restaurants and food service operators may be to buy higher fat grinds that typically sell at a lower price point. **ABI**



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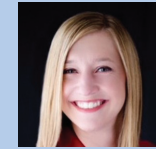
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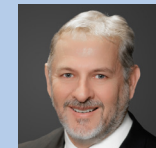
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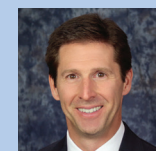
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The Iowa Association of Business and Industry (ABI) has been the voice of Iowa business since 1903. Its mission is to provide a strong, unified voice to business and industry on issues affecting Iowa employers. ABI is comprised of member companies representing all industries and sizes in Iowa's 99 counties. ABI members employ more than 330,000 Iowans.

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