Your Link to CERTIFIED ANGUS BEEF® BRAND

by **STEVE SUTHER,** *director industry information division, Certified Angus Beef LLC*

CAB premiums exceed $50 million per year

"Amazing" is the word economists and packers use to describe market premiums paid for cattle accepted for the *Certified Angus Beef®* (CAB®) brand. At just more than $50 million, the grid premiums paid in 2003 are more than double the original 2001 estimate of $23.2 million reported two years ago.

Now, as then, leading packers licensed by Certified Angus Beef LLC (CAB) shared figures, with the condition that individual company numbers would not be reported.

When Tyson, Excel, Swift & Co., and National Beef checked actual CAB premiums paid in 2001, the tally came to more than $20 million higher than the conservative estimate at the time. Since then, the total annual premium has increased by another $6 million (see Fig. 1). These figures do not include the related premiums for yield grades, USDA Choice over Select, Prime over Choice, nor the cash live bonuses often paid for expected CAB acceptance.

Widespread grid premiums for CAB-accepted cattle appeared in the mid-1990s. By 1998, all the major packers featured CAB premiums in their grids or formula pricings, and producer incentives have increased each year.

"I was a little surprised to see the dramatic growth since then," says Sparks Co. Inc. economist Mike Sands, Memphis, Tenn. "We had seen the growing premium structure on the beef product side, however, so it makes sense that it should translate to the live cattle side. CAB has been the leader in setting the beef industry's pace toward higher quality."

"Grid-based cattle marketing has increased substantially over the past five years," says Kansas State University (K-State) economist Ted Schroeder. At the same time, "demand for high-quality beef has strengthened, and producers of cattle suited for branded product lines like CAB have benefited," he says. "Producers have figured out how to produce and market fed cattle to increase the likelihood of quality and yield premiums, and to reduce the incidence of large discounts."

Cash or grid market?

Two years ago, packers estimated some 40% of their CAB-accepted cattle were purchased through grids. That share moved past 50% last year, though it trailed off in the face of huge cash bids. Packers say grid premium totals for 2003 would have been higher if not for the uniquely current cash market in the last quarter.

For example, one load of Angus cattle that sold at an attractive cash price to a Nebraska plant in November turned out to be 30% Prime, 40% CAB and 95% Choice or better. Available grid premiums of $22 per hundredweight (cwt.) of carcass for Choice over Select and for Prime over Choice, and $5 or more for CAB were turned away because the producer was satisfied with the cash price.

Will such opportunities last? "It won't be like this as we get further into 2004," says Tim Schiefelbein, director of live cattle procurement for Swift. The industry will work through its shortage by harvesting fewer cattle per week, and longer feeding will increase the supply of high-quality beef. "But on average, the spreads will stay wider for 2004 because people are going for quality," Schiefelbein predicts. "When the Choice-Select spread narrows, it will fall back to what had been its historical average, such as $7 per hundredweight, rather than $2 per hundredweight or $3 per hundredweight."

Average CAB premiums have advanced steadily since 1998, at least doubling. In this decade, variable weekly premiums for the brand have ranged from nearly nothing to more than $12 per cwt.

"Premiums associated with *Certified Angus Beef* are one example of the kinds of targets producers have learned to hit on a consistent basis," Schroeder says. "Incentives for producing cattle that will attain CAB specifications are determined largely by the supply of qualifying cattle and demand for high-quality beef."

Keeping those elements in relative balance has been a challenge since the brand started in 1978, but bullish market psychology and the closed Canadian border for beef trade combined to help bring about the imbalance last fall.

Producers may love the record-high cattle prices, but the shortages and high beef prices risk what has been a solid trend for recovery in consumer purchases of beef. "That's the sad thing," Schiefelbein says. "We've got the price above what the typical consumer can pay, and that hurts demand."

Pat Marean, Angus programs senior product manager at Excel, agrees shortages of CAB product are a concern. "When a retailer has to go through three major packers to fill an order, they just yank their ads. Some even pull the premium products from their service counters," he says. "That's wrong, because consumers should be the ones who decide if they can afford higher-priced product." Speaking from experience selling scarce Prime products, Marean says retailers would be better off posting notice that some cuts may be unavailable at times.

Quality shortage

The fall shortage of high-quality cattle hit packers hardest if they were already getting the most out of each accepted carcass. For others, it was an opportunity to improve on overall carcass utilization.

Through the fall, Sands says, packers had to buy cattle from what should have been their future supply, giving up quality grade potential in the rush. That will change, but the pace of change behind the move to high quality may not.

"Among our retail clients, interest in premium beef has continued to grow at a rapid pace, despite the market volatility of the last four or five months," Sands says. "I don't see that slowing down or changing."

On the live cattle side, the rise of premium brands has siphoned the high-quality beef away from the rest, and that may lead to "two-tier pricing." Producers notice the growing rewards. "There's not much question that people are moving toward trying to capture those premiums. Again, I can't see that changing or slowing down."

Price strength for high-quality cattle goes beyond the supply shortage, Schiefelbein says. "When we were grading 62% Choice last spring and the Choice-Select spread only got down to $4 or $5, that told me the demand for quality was real," he says. "In the fall, we only fell 2½% in Choice supply, but the spread moved from $12 per hundredweight to $22 per hundredweight, and that's amazing."

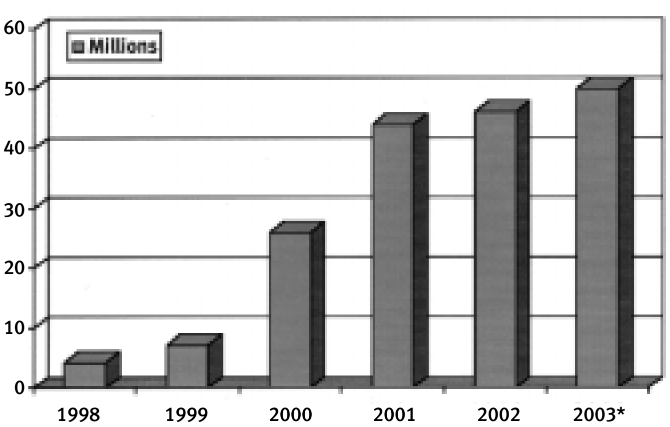
Schroeder says, "Branded products that ensure characteristics consumers want — high quality, tender, consistent quality, nutritious, safe — are replacing generic products on the retail shelf as well as in foodservice establishments. Producers need to look for market opportunities where they can acquire increased premiums for their beef that more than offset any additional costs of production."

He cautions, however, "some grids still offer little or no premium for carcasses that meet certified program specifications, so targeting the appropriate grid remains an important strategy."

While the percentage of Choice or better cattle has remained static, Sands says, "the industry responds to long-term changes in profitability. And when you can garner an additional $5 per hundredweight with CAB, along with the Choice premium over Select, and packer-specific programs, there are huge incentives to change." He and Schiefelbein see a growing polarity in cattle quality.

"The signs point to increasing demand for upper Choice and Prime beef, but not necessarily for Select beef," Sands says. "We have plenty of Select cattle for the demand." Some of the polarity comes from within black-hided cattle, which make up most of the fed cattle mix, Schiefelbein says. "Angus blacks are very predictable and some of the best cattle we buy, but non-Angus blacks are the most unpredictable," he says.

Fig. 1: CAB® grid premiums packers paid to producers for accepted cattle, 1998-2003



**2003 is an estimate.*
NOTE: *Since 1978, packers have paid producers at least $178 million in direct grid premiums related to CAB acceptance. They — not producers — have funded the CAB program, paying $100 million over the years on sales of 5 billion pounds of CAB products.*

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