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CAB grid premiums near \$200 million

Packers have paid producers nearly \$200 million in *Certified Angus Beef*® (CAB®) brand grid premiums in the last decade, and 94% of those premiums have come in the last six years. But, the value-based marketing that best rewards producers for hitting the target has taken a back seat to cash excitement lately.

In a biannual survey of its licensed packers, Certified Angus Beef LLC (CAB) found that grid marketing reached a near-term peak in 2002 or 2003, depending on the region and plant. About half of all CAB-accepted cattle were purchased on grids in 2002, but that fell to below 40% in 2005, according to packer estimates.

CAB licenses 85% of the fed-beef packing capacity in the United States. Cargill, National Beef, Swift & Co., Smithfield Foods Inc. and Tyson Foods

Inc. cooperated in the survey on the condition that no individual company data or plant data would be published. The 2005 numbers are projections and may be corrected in subsequent surveys.

Licensed packers report more cash sales in hot market.

“Grids are down, but, more importantly, total harvest has been down from 2003,” said one packer buyer. Conversely, carcass weights have trended higher; relatively cheap corn and expensive feeders have contributed to overfeeding as well.

Some packers report paying similar premiums for CAB, whether grid, cash or contract. “In looking across our plants and all the different forms of buying cattle — live, grade-and-yield, contracted, etc. — the premium for CAB comes out to about \$5 per hundredweight (cwt.) live,” one packer said.

Record-high cash prices and concerns about yield grade discounts from overfed cattle combined to put a damper on total grid premiums paid. Producers who kept using variable premium grids found slightly lower 2005 premiums in comparison with 2004. With a larger share of high-quality cattle moving in the cash trade, packers had less reason to pay higher premiums on grids.

Most of the companies reported CAB grid premiums paid and total premium value of all CAB eligible cattle (see Fig. 1). Where total value was not reported, it was estimated from average per-head premiums for the year, multiplied by the total number of CAB cattle identified from those packers.

Just as cumulative CAB premiums paid reached \$195,709,300 by the year’s end (see Fig. 2), the cumulative premium value of all CAB cattle purchased through all methods neared \$500 million.

Potential premiums

Of course, producers could not capture all those premiums without incurring some discounts, but the “potential added” premiums are dollars left on the table if cattle were sorted accurately. Sorting precision should improve when discounts for Yield Grade (YG) 4s increase.

“Packers could not afford to discriminate much in 2005,” one spokesman admitted. “The most

important thing was just trying to get your share of the cattle each day. Even structured cash buying programs are set aside when there is a shortage of cattle to buy.”

Ken Conway, president of the Kansas-based GeneNet marketing alliance, said grid marketing began to recover volume in late 2005. “When feedlots have to pay so much for calves, as they did this fall, they are motivated to get the most out of them on a grid,” he explained.

The GeneNet-CAB premium has climbed from a fixed \$1 per cwt. to \$5 per cwt. of beef throughout the past seven years, never falling back. With Choice YG 3 as a competitive bid base, GeneNet returned \$16.5 million in premiums to its 1,200 producer customers in that time.

That amounted to a \$23-per-head premium to cash on 723,000 cattle, Conway said. The top 25% netted \$62 per head over cash. “That’s serious money, especially when the cattle cycle turns. We have some Angus producers within that group who have been with us from the start, acting on the information. Some of those herds are producing pens of 100% Choice and 60% CAB, mostly YG 2 cattle. They make the most money by selling on the grid when the cattle are ready, not waiting on other market factors,” he said.



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Fig. 1: Annual CAB® historical packer grid premiums paid (light grey) and potential premiums reflecting all CAB-accepted cattle (dark grey), in dollars

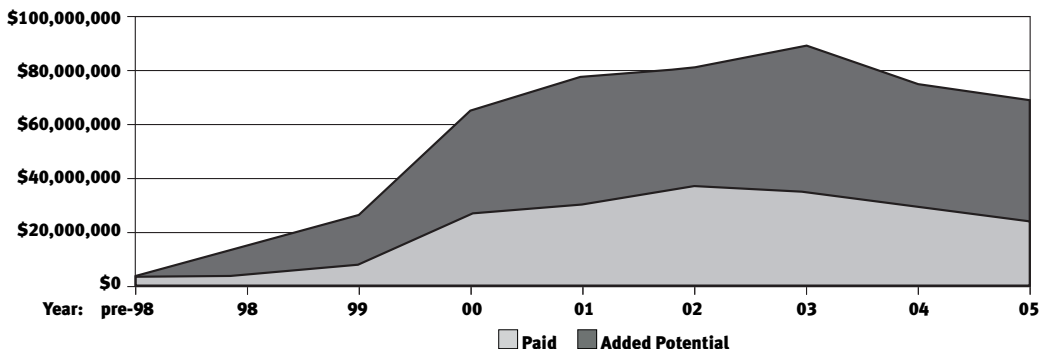


Fig. 2: Cumulative value of CAB premiums paid (light grey) and additional potential available (dark grey)

