CAB Premiums Reach $300 Million

Story by
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Cumulative grid premium rewards for hitting the *Certified Angus Beef®* (CAB®) brand target keep growing at an annual rate of about $25 million paid to producers. That's the five-year average according to a January 2010 survey. The second-highest total for that span was 2008, with $25.5 million, and the cumulative figure would now project to more than $300 million (see Fig. 1).

"The average payout of $98,000 per working day for the last three years shows the continuing relevance of this brand as a producer target," says Brent Eichar, Certified Angus Beef LLC (CAB) senior vice president. "Thanks to their long-term commitment to genetic progress and focused management, the supply of high-quality product can meet the growing consumer demand for the best beef their money can buy."

During the last two years, CAB product sales by some 15,000 licensees worldwide have increased by more than 110 million pounds (lb.), notes Larry Corah, CAB vice president for supply development. "That's a pretty sweet 18.8% growth during difficult times for our economy."

In the biennial survey, leading CAB-licensed packers shared figures on condition that no individual company numbers would be reported. Tyson, Cargill, JBS-USA and National Beef checked actual CAB premiums paid in 2007 and reported totals for the next two calendar years.

These figures do not include the related premiums for Yield Grades, USDA Choice over Select, Prime over Choice, source- and age-verified, nor the cash live bonuses often paid for expected CAB acceptance. Through the years, licensed packers have been the source of funding for the branded beef program based on fees that average 2¢ per pound of CAB product sold. That's a cumulative $167 million in commissions on 8.3 billion lb.

Widespread grid premiums for CAB-accepted cattle appeared in the mid-1990s. By 1998, all the major packers featured CAB premiums in their grid or formula pricing.

Ted Schroeder, agricultural economist at Kansas State University, notes that the combination U.S. Department of Agriculture (USDA) calls "formula plus negotiated grid sales" has been steadily increasing since a dip in 2003-2004. Details of most formula agreements are not known.

"We believe they include premiums for quality," he says. Not all formula selling involves grid pricing, Schroeder adds. "But, comparing different data and sources suggests most of it does."

Another economist who has long followed the mechanics of grid pricing says the very fact that cattle keep earning premiums says the industry's herds continue to improve. Clem Ward, professor emeritus at Oklahoma State University, says, "If we are paying premiums above the average cash price, then it suggests premiums are exceeding discounts and one might argue it means we are moving toward desired quality cattle — or moving away from those discounted by the marketplace."

Urner-Barry's Yellow Sheet reports over the past several years show a CAB-Choice boxed-beef spread that is often more robust and certainly more stable than the Choice-Select spread (see Fig. 2), Corah says. "Research shows the demand for CAB product held up much better than that for Choice, especially in last year's challenging economy," he notes.

Many observers have pointed out that the narrower spread has led many retailers to step up to higher-quality beef, and that is certainly true in the case of CAB and CAB brand Prime. "Higher-quality beef is winning in the contest of price versus value," Corah says.

Although some grids maintain a steady CAB premium in the area of $5 per hundredweight (cwt.), the average per head through all grid and formula selling has declined a bit. That's logical in the face of 30.1% more cattle accepted for the brand since 2007, Eichar says. "Our dedicated licensed partners have managed to move that tremendous supply quite well in a weak economy.

"As demand continues to grow we'll see the market signals calling for still more," he adds. "We should see the average premium per head for CAB-accepted cattle grow back to those 2007 levels."

Fig. 1: CAB® historical packer grid premiums paid

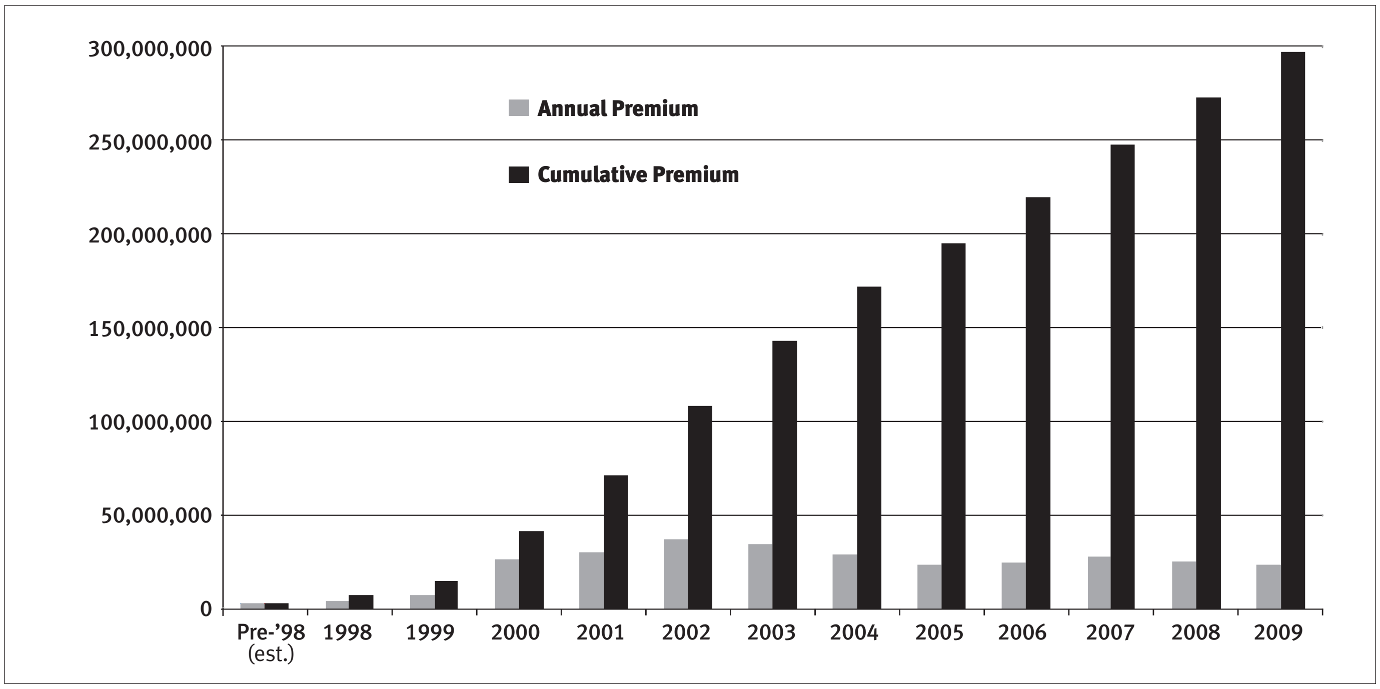
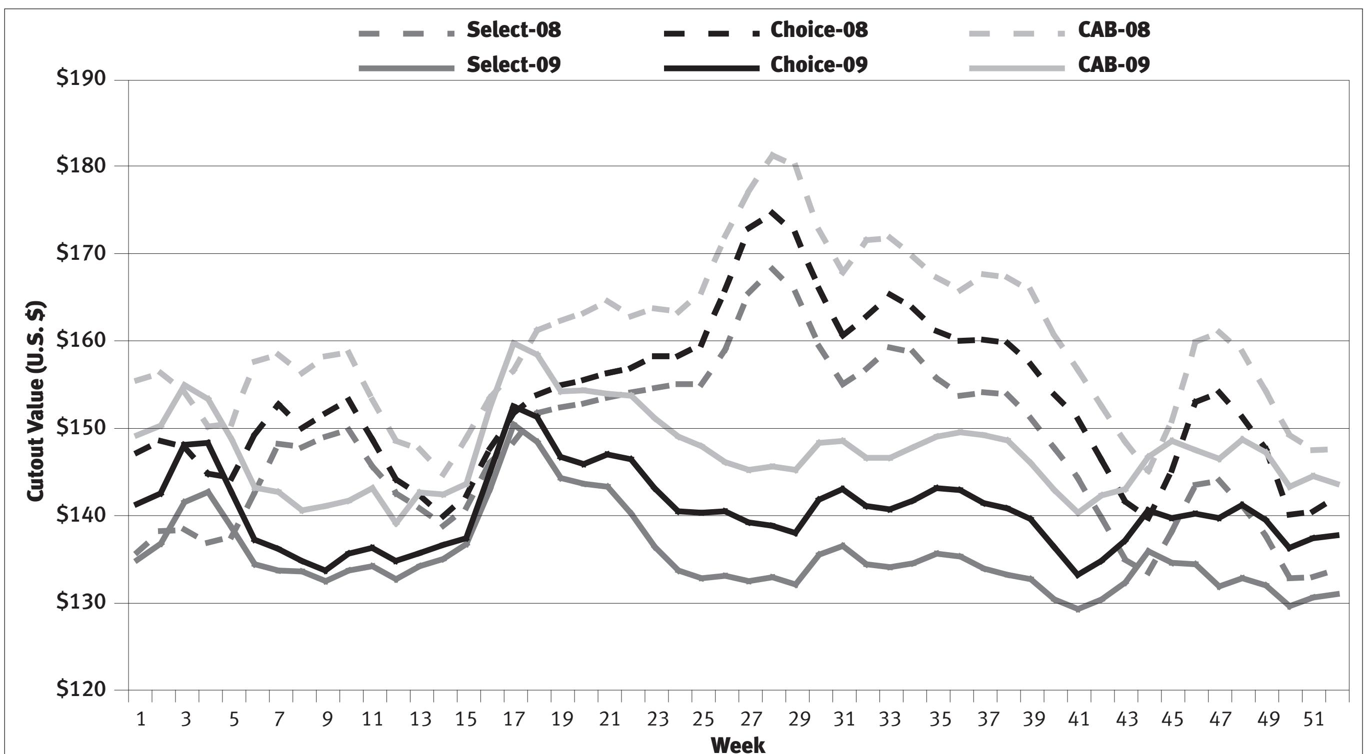


Fig. 2: CAB® Choice and Select weekly average cutout values



Source: *Urner Barry's Yellow Sheet*