



Certified Angus Beef
Value of Quality Analysis

Revised July 2007

In order to quantify the value of quality improvement in the beef industry, we have prepared analysis showing how much value is added by quality grade categories. Another way to think about this is, "What would prices do if all premium quality categories (brands, classifications) went away?"

Methodology

Our methodology to calculate this premium value was to use the choice/select cutout as a base. This was done by using the USDA reported composite cutout for choice and select grades to create a composite price that is based on grade percentages of each and grossing the total to equal 100 percent. This is the baseline cutout (with price and percentage examples):

Choice: \$150 cutout, 54.3% grading
Select: \$143 cutout, 37.3% grading

91.6%

91.6% graded: 54.3% divided by 91.6% = 59.2% adj choice
91.6% graded: 37.3% divided by 91.6% = 40.7% adj se

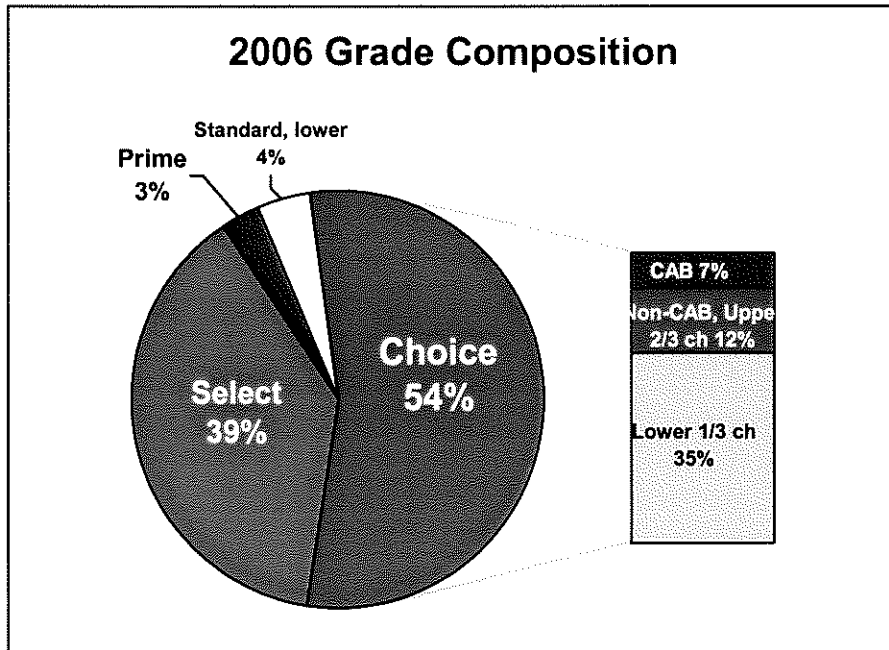
100.0%

Adj choice 59.2% x \$150 (ch cutout) = \$88.8
Adj select 40.7% x \$143 (se cutout) = \$58.2

Baseline cutout: \$147.0

The "premium" cutout calculation was created using the same type of grade percentage and cutout calculations. We first divided categories into five categories:

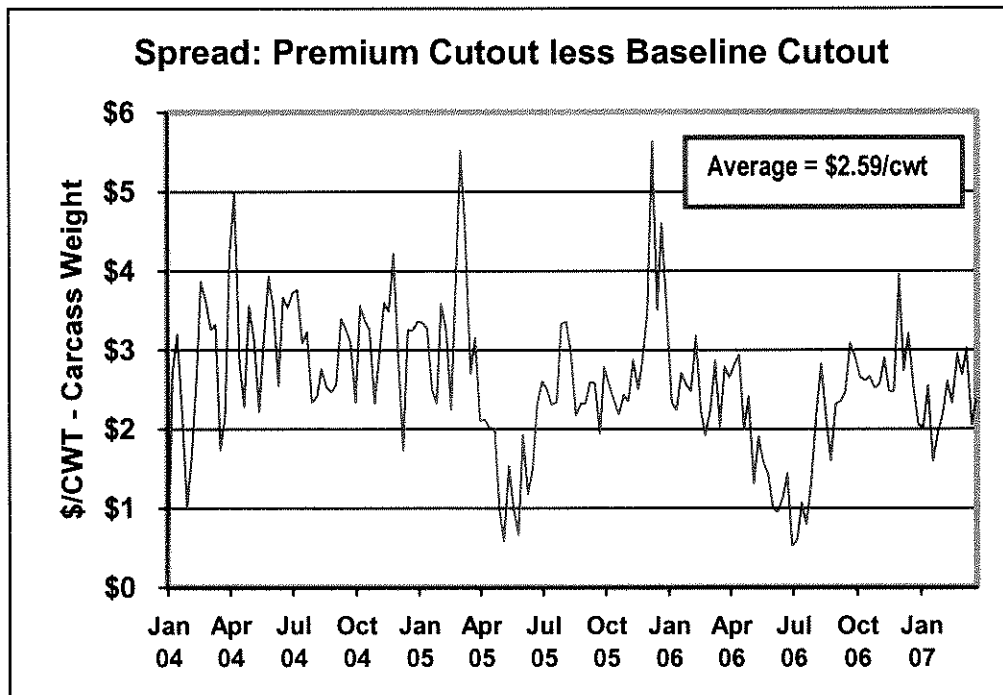
- ▶ Prime -
- ▶ CAB
- ▶ upper 2/3 choice (non-CAB)
- ▶ lower 1/3 choice
- ▶ Select



Source: National Beef Quality Audit – data collection results, CAB, Cattle-Fax

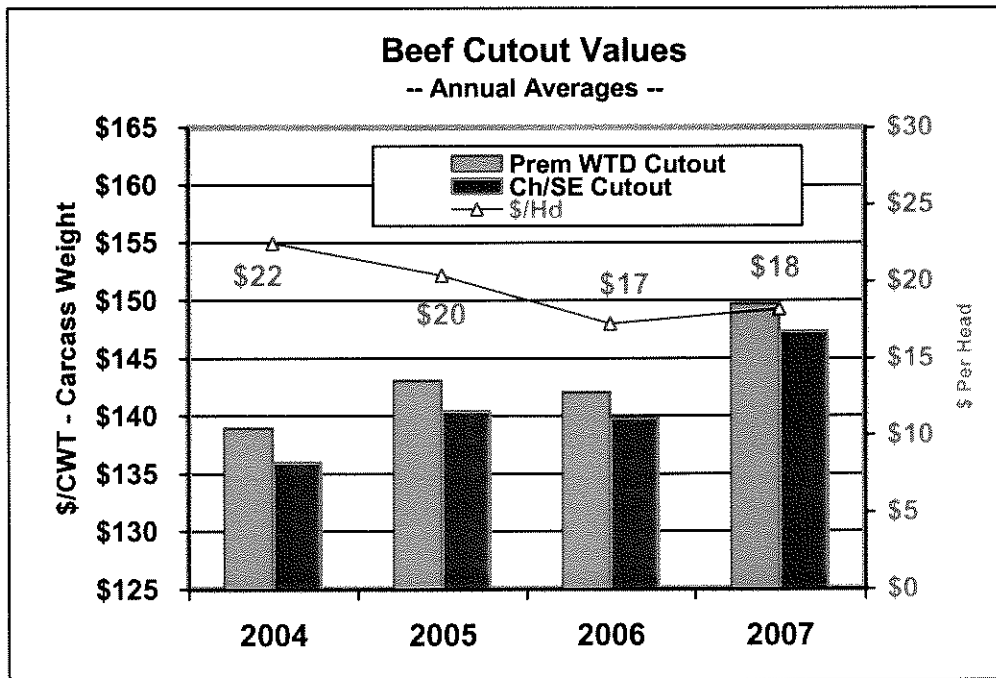
For cutout prices on each of these categories, we used the Urner Barry CAB cutout value for CAB and upper 2/3 non-CAB beef and the choice/select baseline cutout for the lower 1/3 of choice. These new cutout values and percentages were rolled up with prime and select cutout values to create a “premium” composite cutout. This cutout was then compared to the baseline choice/select cutout to calculate the quality premiums.

The following chart shows the spread between the two cutouts:



Source: Cattle-Fax, USDA, CAB

When considered on a per head basis, these spreads are of particular significance:



Source: Cattle-Fax, USDA, CAB

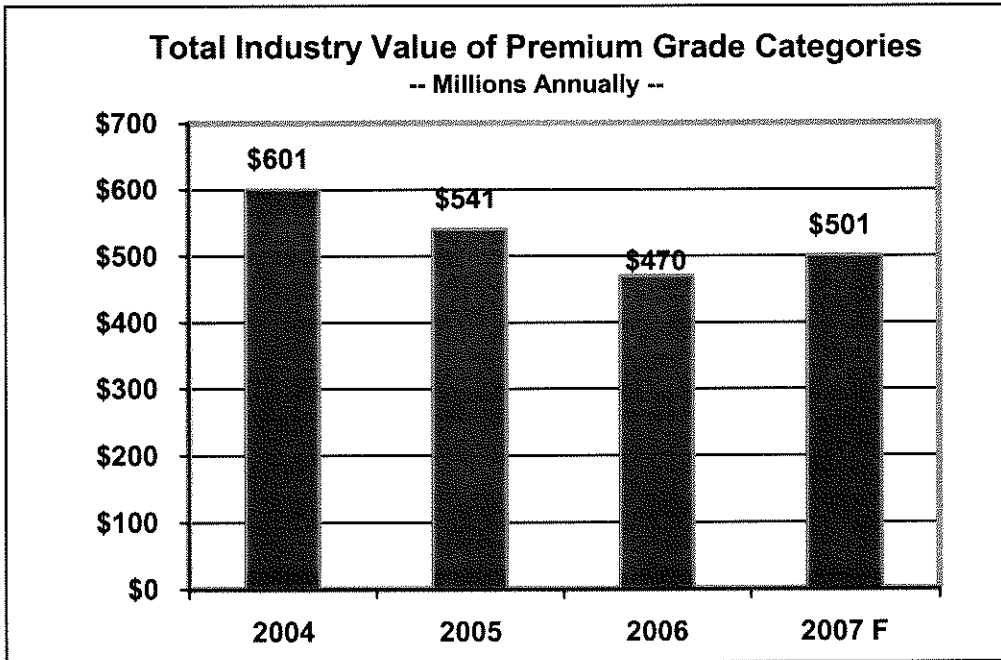
We also conducted sensitivity analysis of increasing choice/decreasing select in this model. The results show that:

Every percent increase in choice grade makes the premium cutout worth:

- \$0.20 per head more than the baseline.
- \$0.03 per cwt, carcass wt, more than the baseline.
- \$0.02 per cwt, live, more than the baseline.

(The inverse of this is also true)

Conclusion: Programs and classifications that add value above the choice/select blended cutout value, have added \$17 to \$22 per head on an average basis since 2004, with an average of \$19.91 per head. This is the equivalent of \$2.59 per cwt – carcass weight, or \$1.58 per cwt – live.



Source: Cattle-Fax, USDA, CAB