

Why and how to get started

Do your cattle have what it takes to get premiums that more than offset the discounts in any value-based pricing program? There is no way to know without gathering data.

How much you stand to gain depends on where you are now.

BY STEVE SUTHER

You're selling cattle on the average, with no regard for measurements of value beyond the buyer's eye. You have plenty of company — 75% of all cattle sold are an unknown commodity until the packer discovers the true value.

What's wrong with that? Blind commodity selling ignores consumer demand signals and adds wind to the forces eroding beef's market share. On an individual level, it misses many opportunities to improve profitability — perhaps by \$30/head, researchers say. You can gain marketing leverage by knowing complete information as to how your cattle are likely to feed and dress. If you truly don't want to know, you will lose marketing leverage; but, if you go looking for information, be ready to change.

"Individual animal data is the first step to a whole lot of management changes," says Cal Siegfried, marketing manager for Premium Feeders and Heartland Cattle Co., near McCook, Neb., and Certified Angus Beef (CAB) Program board member. "You can make some basic improvements with group data, but value-based marketing leads to individual cattle management. And that leads to decisions in culling and sire selection, even AI (artificial insemination) in commercial herds."

■ Getting ready

How do you get started? First, be aware that grids can be merciless when you don't have the right kind of cattle on kill day. You

need information before jumping into grid marketing, yet the grid is a major source of that information. "It's a chicken-or-egg problem," says economist and grid-marketing expert Ted Schroeder from Kansas State University.

Southwest Iowa area Extension beef specialist Darrell Busby puts it more dramatically: "Never sell on a grid without having data — that's suicidal."

Alliances, such as the Iowa-based Precision Beef Alliance (PBA), let producers gather data while continuing to sell on cash or "commodity grids" with only modest premiums and discounts. Steer futuristics can be educational tools, but, Schroeder cautions, many are not oriented to "real-world" commercial cattle feeding.

"At some point you just have to take a little risk, partner with a feedyard and find out what you really have," he says.

"Grid marketing is the most direct route to value-based marketing," says Marcine Moldenhauer, Excel's manager of value-added procurement programs, Wichita, Kan. "But it's not the only way. Excel will pay 50¢ to \$1 over the cash market if we think the cattle are worth it, considering the whole range of quality and yield grades and carcass weights."

That may be a way to enter value-based marketing — ordering individual carcass data à la carte through the packer, the Extension service or some other carcass data service, Moldenhauer notes. Excel will work with retained-ownership cash sellers on

individual data but has no interest in wasting time on randomly assembled cash or dressed sale pens, she adds.

Once you gain information, experts agree long-term profitability is best served by aiming at a grid that better rewards moves toward producing cattle of higher value.

Most grids feature huge discounts and relatively modest rewards, so you may ask, "Why take the risk, ever?" Busby and Schroeder say cash sales usually presume a standard level of "outlier" cattle, and that is figured into the bid. PBA data indicate producers can make \$15-\$20/head by managing to avoid cattle that are too heavy, too light, USDA Standard grade or dark cutters. Schroeder's research suggests that figure may be more than \$30/head.

■ Using your data

Whether you are ready for grid marketing sooner or later depends on what the initial data say, Busby notes. PBA, of which Busby is an ex officio board member, routinely works with six different packer grids.

"Sometimes a member will have one year's data confirm that he is roughly on-target, while others wait and cull and adjust for three years before trying grid sales."

There are so many variables in beef production that a single year's data may not be meaningful, Siegfried cautions. He tells of a commercial cow-calf customer who worked for years to increase the percentage of his cattle grading Choice from 65% to 75%, but after one mild winter the grade fell off 10 percentage points despite the improved genetics.

"You have to aim for consistent to better cattle, but keep in mind the weather and markets will not be consistent, so you can't look at any one year for answers," he says.

To help ensure producers' financial viability, Schroeder sees some urgency in moving producers toward gathering and using data. "The market says to get multiple observations, by cow, as soon as possible."

That means keeping records connecting individual calves to cows and building your herd's database as soon as possible, because it grows in value with volume and time. But there are more immediate uses of the data you will collect on the road to value-based marketing.

"Some short-run things can make huge differences in revenue," Schroeder says. "Close management of weights at the feedlot level can mean avoiding \$15-\$20/hundredweight discounts. Closely related to that are the Yield Grade 4s and 5s with discounts of \$20, even \$30/hundredweight, relative to a Choice Yield Grade 3."

The quality grade issue has more ramifications up the line at the ranch,

Table 1: Magnitude of pricing error from selling cattle on a live-weight or dressed-weight basis instead of on a grid, 11,703 head of cattle marketed weekly during 1997

Revenue comparison	No. of cattle, head	Avg. price diff., \$/cwt. live	Avg. revenue diff., \$/head	Total revenue diff., \$
Grid less than live wt. revenue	3,650	-2.90	-36.80	-134,335
Grid exceeds live wt. revenue	8,053	3.20	40.04	322,442
Grid less than dressed wt. revenue	5,521	-3.11	-39.38	-217,435
Grid exceeds dressed wt. revenue	6,182	2.28	28.49	176,150

Source: Kansas State University.

This table illustrates the greater premiums and discounts connected with grid marketing. The spread is wide when applied to a large group of average cattle, as in this case, but the sale of unknown "average" cattle on a grid is not recommended. Note that proper sorting by data and visual information would determine the best way to sell specific cattle.

Schroeder notes. “You can have a major influence at the feedyard, but some cattle just don’t have the genetics to finish efficiently as a Choice. Some are best sold as Select because they won’t put on marbling efficiently,” he says. “Change here takes longer-run decision-making, management and genetic selection — but it can offer big returns.”

Moldenhauer, who has a lot of experience in working with alliances such as Cargill’s BeefWorks and Angus America, says, “Genetic change is the last thing they [producers] should do. Probably 70% to 80% of the change needed is pure management, whether it be health, nutrition, sorting or pulling cattle off grass earlier.”

■ Feedyard selection

That means feedyard selection is as important as sire selection in the near term. Select a feedyard manager and build a relationship on communication and trust, Moldenhauer advises. There are feedyards that “understand the additional work it takes to be in the service business, to manage cattle differently and keep individual information, knowing what that is worth to their customers.” An example of such feedyards would be those licensed as CAB Program partners.

“It’s up to you, the cow-calf producer, to call and visit some of them to see who you feel most comfortable with,” says Moldenhauer. “It goes far beyond facilities. Whose personality do you click with? That’s as important as anything. Who can you build a relationship with? It can be one or several yards, as long as you know what the differences are and how to compare one to the other. If you don’t want to have to figure in those variables, then stay with one yard.”

Schroeder agrees producers must understand or eliminate as many variables as possible at the feedlot level. “When you are aiming for more consistency, the last thing you need is to add variability at the feeding level. Work with an experienced feedyard manager you trust. An experienced feeder will know more about somebody’s cattle than that somebody — by ultrasounding, observing how cattle respond to the feeding regimen and comparing them to others.”

Sorting to optimum finish is a must, according to value-based marketing experts. “Don’t blame the cow for something we did or didn’t do in the feedyard,” Schroeder says. “If you have 200 calves, even if they are fairly uniform, the ideal finish date may be in at least three different weeks.”

■ What are the rewards?

Moldenhauer says, “Some people were attracted to value-based marketing to get

more for their cattle and to get what they were worth.’ But after a year or two, they see it’s all about learning what value is, what drives that and why — knowing how to really manage the cattle to hit the consumer target. The idea goes far beyond just putting cattle on the grid. It’s a whole paradigm shift,” she stresses.

Most producers just test the water in a limited way at first, she says. “With most of them, good news or bad, they say, ‘I’d better try a little more and see what happens.’ Some have a knee-jerk reaction, too: ‘That’s it, I’m done, I’m out.’ They need to consider where they are going to fit in the future. Are

they going to be commodity traders or quality producers?

“If you have substandard cattle, ask yourself how long you can do that. You can’t fool even some of the people all of the time,” Moldenhauer notes. “Are you going to keep moving around? After some point are you willing to accept the reality of what those cattle are worth or make a change?”

Producers point out that discounts always outweigh the premiums. “That’s true,” Moldenhauer admits, but that’s in the big picture — it is not true for the producer who has worked to apply the lessons learned in value-based marketing. 