CERTIFIED ANGUS BEEF

Third in a series on grid marketing

Choose a target …
Or set one up

BY STEVE SUTHER

Fed cattle may be worth a single average price on any given day, but if you're interested in value-based marketing, you don't care so much what "cattle" are worth. You want to know what each carcass is worth and why.

The value of any single carcass can vary by $75 or more, depending on the grid market through which it is sold. At least a dozen established grids are out there, some varying from the next grid by no more than 50¢ on one item, others seeking a very different type of carcass. With a little time and effort, you can usually find a grid that is a logical target for your cattle, but in some cases you may have to negotiate your own.

Economists refer to three basic types of marketing grids in value-based marketing: the commodity grid, the quality-grade grid and the yield-grade grid (see Table 1). The first is considered primarily a tool for use in inventory control, but it also serves as a learning grid for a producer to decide which of the other two types of grids to target.

Specific genetics, management and timing are critical to the success of choosing any grid target. Most Angus-type cattle are best suited to the quality-grade grid target.

"Each grid is a little different, some slanted toward higher grading, others slanted more toward cutability," comments Steven Landgraf, manager of Royal Beef, Scott City, Kan.

In your favor

Steven Landgraf, manager of Royal Beef, Scott City, Kan., has dealt with at least five different grids as a cattle feeder. He also knows the other side, having served 12 years as a packer-buyer for IBP and National.

"Each grid is a little different, some slanted toward higher grading, others slanted more toward cutability," Landgraf comments. "The secret is probably to send them to the one that favors what you have the most of." If you have cattle that can "do it all" in terms of grading at least 70% Choice with 70% YG 1s and 2s, he says, "I'd go to one with the highest premiums for Choice, CAB® and Prime."

Keep in mind that unique grids may be similar, and the best target in fall may not be so in spring. Clem Ward, Oklahoma State University economist, says, "In USDA-reported grids, some of the premiums and discounts vary quite a lot over time — the Choice-Select spread, discounts for heavy cattle, YG 4s and 5s, and maybe 'out' cattle. The other cells in the grid don't vary much."

Once you have at least one year's worth of discovery carcass data on your cattle, perhaps from a commodity grid, you can "plug your carcass results into various grids to see which might be best," Ward says. "But recognize that a change in the Choice-Select spread might change your decision."

Management tools

Landgraf agrees. "In February or September, you almost hate to see a pen of Angus-type cattle grading 80% Choice when the reward is only a few dollars. It might widen to $11 or $12 in May or June," he says. Your cattle have to be fed until they are finished, so if your Angus-type cattle are done at a time when the rewards are seasonally lower, maybe you should try something different back at the ranch.

"Change your calving dates or your window on when they go on feed by varying your backgrounding strategies," Landgraf suggests. "People get discouraged that nobody is paying much of a premium for their good black cattle in January and February, but that's when the market wants cattle that may only grade 20% Choice but 80% YG 1s and 2s. The market changes through the year, more than some people realize."

For any grid target, dressing percentage may be the most critical component, Landgraf says. He cites one example where cattle fed for 37¢/pound (lb.) of gain put on those pounds at a rate of 4.25/day, graded 70% Choice and had a 30% *Certified Angus Beef*™ acceptance rate. But the growthy, 1,300-lb. Angus-type steers were "heavy-hided" and only dressed 62%. "The owner compared his price to a live price — which is a fictitious kind of a standard to go against — and decided that he didn't get a premium.

"You could look at it that way," Landgraf allows, "but you've got to analyze it on an animal-unit basis instead of on a live basis. The cattle still made money, but they may be telling you to manage them differently. Put them on feed a little lighter and feed them longer so they will lose some of that middle, instead of placing them on feed as eight-weights. You have to know your cattle."

Ward points out that the schedule of premiums and discounts is only half of the pricing mechanism in a grid. "The other half is the base price, usually either a formula based on plant averages or live cash price, but ideally negotiated or tied to futures or wholesale beef markets," he says.

"If your base is a live cash price, dressing percentage enters in," Ward explains. "Some feeders want a liveweight base so they can compare it to the cash price, but the industry needs to move more toward selling the meat for what it is really worth."

Grid pricing is "glorified grade-and-yield" pricing, says Landgraf, who used to buy cattle that way. "It's like putting grade-and-yield into a jigsaw puzzle. I like that analogy; you try to have all the pieces of the puzzle that get you premiums." Just make sure you aren't working on the wrong puzzle or missing too many pieces to try putting the picture together.

Know your target

It makes Landgraf's job easier when a customer knows his target at placement, because management can be tailored toward meeting a specific grid. As a licensed Ceritified Angus Beef (CAB) Program yard, Royal Beef is participating in building the database that will help fine-tune those abilities to increase the *Certified Angus Beef* carcass acceptance rate of eligible cattle while optimizing profit opportunities.

If cattle don't seem to fit any local grid, a producer might still be able to strike a value-based deal. "If you feed a certain kind of cattle that stand out in your geographical area, and you know the packer has a customer base that can use that kind of cattle," Ward says, "you may be able to negotiate your own grid, depending on volume."

There is more opportunity to negotiate in the case of an alliance or any firm that can promise quantity and uniformity, Ward notes. The individual might negotiate on one or two points, he adds. "It is like negotiating on cash cattle; you might offer to sell cattle on a packer's grid if he adjusts a quality premium or a seasonal discount."

Table 1: Three alternative grids

	Commodity	Yield Grade	Quality Grade
Prime	$6.00	$3.00	$10.00
Upper two-thirds Choice	$1.50	$0.00	$3.50
Choice	$0.00	$0.00	$0.00
Select	USDA Spread	USDA spread x 0.85	USDA spread x 1.15
Standard	Select-$10.00	Select-$3.00	Select-$15.00
YG 1	$2.00	$3.00	$1.00
YG 2	$1.00	$2.00	$1.00
YG 3	$0.00	-$1.00	$0.00
YG 4	-$15.00	-$20.00	-$12.00
YG 5	-$20.00	-$25.00	-$17.00
Light & heavy carcass	-$15.00	-$15.00	-$15.00

Source: Dillon Feuz, agricultural economist, University of Nebraska, Panhandle Research & Extension Center.

Table 2: Representative variation among commodity, yield-grade and quality-grade grid prices, $, based on the following assumptions:

USDA Choice-Select spread:	$7.00
Average dressed price:	$100.00
% cattle grading Choice:	60
Base grid price:	$103.80

Commodity Grid:

	Yield Grade				
Quality grade	1	2	3	4	5
Prime	111.80	110.80	109.80	94.80	89.80
Upper two-thirds Choice	107.30	106.30	105.30	88.80	83.80
Choice	105.80	104.80	103.80	88.80	83.80
Select	98.80	97.80	96.80	81.80	76.80
Standard	88.80	87.80	86.80	71.80	66.80
Out cattle	-15.00				

Yield-Grade Grid:

	Yield Grade				
Quality grade	1	2	3	4	5
Prime	109.80	108.80	105.80	86.80	81.80
Upper two-thirds Choice	106.80	105.80	102.80	83.80	78.80
Choice	106.80	105.80	102.80	83.80	78.80
Select	100.85	99.85	96.85	77.85	72.85
Standard	97.85	96.85	93.85	74.85	69.85
Out cattle	-15.00				

Quality-Grade Grid:

	Yield Grade				
Quality grade	1	2	3	4	5
Prime	114.80	114.80	113.80	101.80	96.80
Upper two-thirds Choice	108.30	108.30	107.30	91.80	86.80
Choice	104.80	104.80	103.80	91.80	86.80
Select	95.75	95.75	95.75	83.75	78.75
Standard	80.75	80.75	80.75	68.75	63.75
Out cattle	-15.00				

Source: Dillon Feuz, agricultural economist, University of Nebraska, Panhandle Research & Extension Center.

Some value components vary seasonally, and if a grid doesn't reflect that, a producer might negotiate for an adjustment, Ward and Landgraf say. "Some people look only at the premiums when choosing a grid, but you should look at the discounts, too," says Landgraf. If you have some hard-bone heifers at a time when cow slaughter is short, there may be room to negotiate a lesser discount. In some cases, YG 4 discounts are also subject to negotiation, such as when YG 3 supplies are short.

There is no pen-by-pen grid negotiating, Ward says, and with good reason. "You can't ask the buyer to blend, estimate by appearance and adjust premiums and discounts to fit whatever kind of cattle you have. That defeats the purpose of grid marketing, which is to reward better quality and discount poorer quality cattle — not to adjust the grid to fit any cattle," he says. "The idea is to change cattle so that they fit a grid."