

Narrowing Windows

Will your next year's calves fit the evolving value-based grid that awaits them?

BY STEVE SUTHER

Picture a value-based beef marketing grid as a window, with its bull's eye for achieving high quality grade and low yield grade in the upper left corner. Imagine the lower right being filled with shards of broken glass — you want to avoid those discounts.

Think of the carcass weight parameters as the picture-window width, a panoramic 400- to 500-pound (lb.) range. The beef industry's end-product side is mounting pressure to condense that width, especially by sliding in the heavy side. All the talk centered around uniformity seems like lip service to those buying premium boxed beef cuts from carcasses that in reality may vary nearly 100% in weight.

Moreover, supply of the lighter carcasses especially sought after by the foodservice industry is unpredictable. Even though the definition of "light" has been moved up to include heavier cuts, supply is often short, says Chris Beck of Lone Star Food Service in Austin, Texas.

Focus on weight

Supply and demand already has moved quality grade premiums higher, and carcass yield premiums are in a state of change, too, say industry leaders. But in the afterglow of the production effects of a mild winter and cheap feed, carcass weight has been talked about the most this year.

"Foodservice demand for beef is tremendous and is helping to provide support for cash cattle prices in this time of record on-feed and placement numbers," says Joe Don Eilers, beef department manager for Sysco Corp. in Houston, Texas.

He summarizes the problem that may keep some of that demand at bay: "When you've got cheap corn and tremendous performance like we've seen over the last year, there is an economic incentive to grow heavier cattle. That is production-driven, maximizing return, but it only works for some segments of the beef industry.

"The economic incentive is not consumer-driven," Eilers continues. "We have to be leery about letting production dictate the end product because, if you end



up with a product that does not fit the consumer, you can set in motion something that will put you in financial turmoil over time."

Seeking moderation

What do foodservice and retail beef managers want?

"We're not talking about a return to the 'dinks,' just a moderately sized, more youthful animal that will give us the carcass size typical of a few years ago," Beck explains.

Moderation in size also would be welcome at retail, says Lewis Taylor, director of meat operations for K-Va-T Foods Inc., Memphis, Tenn., which operates the Food City stores in three states. "Consistent size would be even better — a 600- to 700-

pound carcass would give us a nice-size ribeye."

Consistent size is especially important in the middle meat cuts, as are weights of subprimals coming into the store, says Russ Johnson, Certified Angus Beef LLC (CAB) assistant director of retail. "If a retail chain is offering T-bones, strips or ribeyes, they would like to be able to cut them the same thickness and not have too much variation. They would have a difficult time selling a strip steak with an 18-inch loin eye."

Taylor says that is rare, but those king-size cuts typically must be put out as singles in trays meant for moderate-size cuts. "Being able to put two or three steaks in a tray increases the tonnage of steaks that we sell," he adds.

Foodservice concerns

If the value-based grids change, the pressure will come from the foodservice side, however. Restaurateurs have menus that publish feature items at 8, 12 or 16 ounces, and those cuts need to be that weight every time to please customers.

Beck says, "Packers have continued to increase the size categories in response to increased carcass weights. Where lip-on ribeye weights used to break at 11 pounds and down for lighter product, that has moved up to 13.5 pounds, and even though they are too big, we still can't get enough."

"For today's foodservice customer, product weight is a large concern," Eilers says. Noting the underlying support foodservice buyers provide in the cattle market, he adds, "It would be a shame to lose this demand momentum and the equity support because we didn't react to our customers' needs."

Sysco, with sales of \$1 billion-\$1.5 billion in beef this year, does not plan to sit by idly.

"We as a company have heard the concerns and will align ourselves with suppliers who can and will promptly react to the message our customers are sending us," Eilers says. "We are developing programs that will send those wants to the packing industry, which should ultimately

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send them to the feeding industry.

"We are looking for the right size but also for consistency," Eilers explains. "Our ideal carcass weight is 625 to 750 pounds, the upper end of that coming from a 1,150-pound steer or heifer. This would yield a ribeye of about 11 to 12.5 square inches, which would provide sufficient plate coverage and be thick enough to guard against overcooking."

Noting he usually pays \$1-\$1.50/lb. more for lighter ribeyes, Beck says, "If packers are serious about paying for actual carcass value, they would include the increased value of the lighter carcasses per pound."

Why are Sysco and other foodservice companies pushing this?

"Look at who is preparing the food — not everyone has an executive chef," Eilers explains. "The tight labor market for quality people to fill food-preparation positions has our customers asking for consistency in product size. We therefore need to supply them with product that won't require too many creative adjustments in the preparation process."

How will the message be received in the packing segment, and how might it be passed along?

Packers generally agree that a 700- to 750-lb. carcass is ideal for their customers, and they acknowledge there is more flexibility in marketing the 10- to 13-inch ribeyes. But how and if they will communicate that to producers remains to be seen.

Packer view

Tim Schiefelbein, director of value-added procurement for ConAgra Beef, says, "The carcass-weight window does need to tighten up, but I don't know if the timing is right. It's not in the market right now." In fact, June cutout values showed virtually no difference between the lighter 600- to 750-lb. boxes and the 750- to 900-lb. boxes.

He states the production-side argument: "When you can put gain on for 40¢ and get 70¢ for the beef, that tells you to make them heavier." Schiefelbein sees no compelling reason to set up grid-price incentives for lighter carcasses.

"Already, you take such a huge discount at either end that a guy is going to make a steer weigh 850 pounds and a heifer 750 and keep a tight range. I don't think cattle feeders are ready for a change, either," he adds. "You start tightening that up too much and they might begin to lose faith in the concept."



PHOTO BY JAMI STUMP

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Eilers reminds the beef industry it is supposed to be consumer-focused. "We have 1,000-pound carcasses (the upper limit of some value-based grids) because there are no disincentives. The packing and feeding industries are largely influenced by dressing percentage and paid on pounds, so you're going to push right up against the economic disincentives for Yield Grade 4s and heavyweights."

The most efficient carcass in a packing plant is the one at the top of its weight preference, Eilers points out. "If we agree that anything over 850 pounds is not consumer-driven, packers still won't set up a disincentive at that level because, in terms of pounds per man per hour, their efficiency improves up to the 1,000-pound level — it's got us in a quandary."

Packers like Schiefelbein find they are also in a fix, not wanting producers to back away from grid marketing. What about adding a \$1 premium for carcasses hitting that sweet spot of 625-750 lb.? "The problem is, you have to take \$1 away somewhere to make it par out," Schiefelbein says.

And if you take it away from a small part of the population, that \$1 can become huge, he says. For example, if you pay the dollar on 40% of cattle in the middle of your grid and apply the offsetting discounts on the 2% that are too heavy or too light, you would add \$20 to those outlier

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discounts, bringing them to the \$40/hundredweight (cwt.) area.

Pick a weight target that 15% of cattle currently hit and you would have only \$7.50/cwt. to add to the outweigh discounts. "That could still be a problem with commercial feeders," Schiefelbein says. "The guy with heavier cattle would say 'the packer is putting it on me again.'"

Eilers counters, "You have to send a signal, and \$10/hundredweight is not a signal." In some situations, such as in the current production boom, \$20/cwt. may not be a strong enough signal, he notes. "Build your model trying to emphasize certain production efficiencies, but make sure that the output is what the consumer actually wants.



PHOTO BY TROY SMITH

Cheap corn and tremendous performance this past year have created an economic incentive for producers to grow heavier cattle, but the economic incentive is not consumer-driven, warns Joe Don Eilers of Sysco Corp. To meet the needs of consumers, he says, it's imperative to get cattle loaded out on time.

"How much extra money do feeders make by going beyond the ideal 1,150-pound animal to 1,400 pounds? A grid with adequate disincentives would have to offset that," Eilers explains. "Otherwise, you can put up a \$20 discount for anything over 800 pounds, but the return for a 1,000-pound carcass may be greater than that discount, so you're still going to feed for the heavier target to maximize returns.

"I'm just saying [to] be cautious of where you're pointing this industry with incentives for bigger carcasses," he adds. "As you use selected breeding programs to get them bigger faster, be careful that you're not letting the production side override what the consumer wants."

Sysco moves a lot of beef, Eilers says.

"Any signal out of here is going to get major packers' attention." For the near term, no matter where the market or math says grids should go, packers may prefer stability while encouraging producer participation, meeting that foodservice grid by in-plant sorting.

Will the window narrow?

A narrower window for fed cattle? "No doubt it is the right thing to do, but we don't want to push it on anybody right now," Schiefelbein says. That implies, correctly, that ConAgra would be open to creating such a consumer-focused grid for a large feeder.

"If some of these guys get really good at sorting and comfortable they can hit that

smaller target, they might say, 'For every one that hits the bull's eye, give me a buck — that's \$7 per head. You can discount me \$20 per hundredweight under 600 pounds and \$20 per hundredweight over 900 pounds.' We'd take a serious look at something like that right now."

What if future value grids include incentives for relatively lighter cattle? Gary Smith, Colorado State University meat scientist, says, "It would really change this industry if all of a sudden we had less beef per animal — we'd need more beef producers."

While carcass-weight specifications may narrow, widening grid spreads and the lately higher commodity Choice-Select value spread will continue to move cattle toward a higher marbling cow herd base, Smith says.

"Long term, packers will probably put more of a premium on Yield Grade 1s and 2s," he says. "But they are caught for the moment in a dilemma. How much more important is it to have enough marbling, as opposed to having some that are too fat? They can't put marbling in, but they can trim fat off."

Once genetic improvement transforms the population to less external fat and more internal marbling, Smith says, "Then I think they will want to have their cake and eat it, too — both marbling and yield. If somebody can get in the game and have both sides working for them consistently, through genetic selection and management, they are going to top the market on any grid or grade and yield in the future. It's tough to do that early on, but you can get started now."

Schiefelbein agrees. "A \$15 Choice-Select spread rules the market now, but don't forget it can go down, and the Yield Grade 1 and 2 carcasses will become relatively more important.

"The big driver is going to be the video imaging in the plants," he says. "Excel already has it. Give it a couple of years and it will be everywhere. Grading will be more accurate, and grids will change. But we'll try to do it gradually."

Otherwise, fear of discounts may keep cattle away from the grid window, and commodity marketing does nothing to address consumer-specific targets.

